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The ECONOMIC DIGEST

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Editorial Announcement

This month the Editors have pleasure in presenting the first of a series of articles by Mr. George Dorrance, Lecturer at the London School of Economics and Political Science, Secretary of the London and Cambridge Economic Service, and former officer of the Bank of Canada.

The new feature will appear each month under the title " Seen in Perspective," and in it Mr. Dorrance will take bearings on all currents and cross-currents of economic affairs.

In his first article Mr. Dorrance points out that Britain has never faced up to the consequences of a real dollar crisis.

" It is quite possible," he says, " that we shall not be faced with such a crisis. But it is certainly possible that we may drift into it if we assume, on the basis of past experience, that all dollar crises are phoney."

Our Service to Readers

Questions answered—Sources indicated—Facts checked

Subscribers to The Economic Digest are invited to submit any questions concerned with economic facts, or to submit their own writings or theses for factual criticisms which, for obvious reasons, cannot be elaborate.

It is possible to present in The Economic Digest only a small part of the mass of material—reviews, speeches, privately-circulated memoranda, as well as newspapers, journals and books from all over the world—scanned by the Editors and staff every month. Often, however, items which come before their notice would be of great value to specialists, although not of sufficient general interest for presentation in our pages.

Letters of inquiry should include stamped addressed envelope for reply and should be addressed to The Editors, Reader Service, The Economic Digest, 18 South Street, London, W.1

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The

ECONOMIC DIGEST

APRIL 1950 VOLUME III NUMBER FOUR

Joint Editors : Sir Geoffrey Bracken K.C.I.E., C.I.S., H.S. Goodwin

SEEN IN PERSPECTIVE

By GEORGE DORRANCE

What a Real Dollar Crisis Would Mean

WE have been told repeatedly that we face a "dollar crisis." In fact, since the end of the war we have experienced the "Lend-Lease" crisis of 1945, the "convertibility" crisis of 1947, and the "devaluation" crisis of 1949, with minor panics in the intervening years.

Yet the standard of living of the country as a whole has continued to rise and we have experienced conditions of full employment throughout the post-war years.

In the light of these reassuring manifestations one is entitled to ask if these crises are real and to wonder if after all we shall muddle through without any real hardships. We may eventually take the necessary action to put our house in order; but these crises are real enough and we are indeed faced with catastrophe if we do not take the necessary steps.

What will the dollar crisis of 1952 be like if we allow it to occur?

In the first place, we should not be able to count on the first aid of the kind we have received in the past:—The North American Loans of 1945-46, Marshall Aid starting in 1947, and the instantaneous reversal of speculative movements (with Marshall Aid in the background) in 1949. To count on a continuance of Western Hemisphere help after 1952 is to misread all the weather signs of North American politics. To hope for the sudden inflow of gold which helped us in the autumn of 1949 is to misinterpret all the lessons of the 1930's in this field. If we have a crisis in 1952, we shall have to face it unaided and alone.

In order to visualize it, we must grasp certain fundamental statistics. In December, the British Government submitted a memorandum to O.E.E.C. forecasting our position between now and the end of Marshall Aid. While the figures are not offered as definite targets, it is apparent that they indicate the orders of magnitude which the Government assumes to be reasonable.

Imports from hard currency sources are to be limited to the "bare essentials." It is hoped to increase our exports to dollar markets sufficiently to enable us to balance our

overseas payments without Marshall Aid. (In this connection it should be remembered that such plans involve co-operation with the other members of the sterling area who combine their dollar accounts with ours.)

These estimates are based on a number of reasonable assumptions, but if for example, the United States has a recession yet still followed a price maintenance programme without giving any foreign aid, our dollar export income might well fall 10 per cent. below estimate, while our import payments would have to continue at their estimated level.

Effect of Import Cuts

If we were unable to pass on any of the burden of readjustment to other members of the sterling area we would be forced to cut our dollar imports by about $250 million from their estimated level of $1,050 million. In view of the fact that we are planning to develop "soft currency" sources to the greatest possible extent during this period, this would probably mean that we would have to do without these imports completely.

What would this imply? Obviously it would mean the end of "Virginia" cigarettes: the $70 million allocated for tobacco would have to go. Probably also the $15 million allocated for pulp and paper would disappear. It can be assumed that the suggested food imports of $315 million are vital to our rations and that the timber imports of $40 million would be essential for the inevitable building programme to ease the unemployment situation that would meanwhile inevitably have arisen.

The best one would hope for is to spread the cuts evenly over the remaining imports. Since these are all already planned to be at "minimum" levels, any fine adjustment on other items appears to be rather improbable.

When transposed to our overall accounts such a forced reduction would mean that we would have to cut our consumption of imports as follows:

Tobacco—15 per cent.; raw materials—5 per cent.; machinery, 16 per cent.; manufactures—2 per cent.; oil—7 per cent.

The experience of the fuel crisis of 1947 shows how drastic can be the effects of relatively small shortfalls in the supply of vital materials. Cuts in raw material imports of the magnitude suggested above would be bound to lead to an immediate fall of at least 5 per cent. in production, leading in turn to further secondary reductions in employment; as a result a rise in the unemployment figures of at least 1,000,000 seems a not unreasonable estimate. This would lead to a figure of between a 1,000,000 and 1,500,000 unemployed.

How could these import cuts be carried out? There are three possibilities:

(1) Import licensing could be made more stringent.

(2) The Government could intervene more directly in foreign trading.

(3) The £ could again be devalued.

Limitations of Control

It must be remembered that there are limits beyond which it appears unlikely that Government Departments can extend their purely restrictive and licensing action. In all probability the Government's 1952 dollar import programme will be close to those limits.

If hard currency imports of most commodities have to be reduced by about one-quarter, it seems likely that the Government will be forced to take much more extensive action

than they now contemplate. They may find that the import licensing system becomes so restrictive that it breaks down. If not, they will probably find that it can only be made to work effectively by so expanding the control of imports that they are in fact allocating all dollar imports directly to their ultimate use.

When one realizes how widespread is the range of industry using these products, this would probably mean that they would be forced to plan the output of the British economy in a far more detailed manner than they have ever contemplated before. These results would come about even if they were able to follow the first of the alternatives outlined above and were not forced into the second. In any event such a development occurring at the same time as inevitable unemployment above the 1,000,000 mark would raise serious political problems. It is impossible at present to forecast the probable effects of further devaluation. Faced with the less serious problems of 1949, the Government felt compelled, and probably rightly so, to reduce the value of the pound from $4.00 to $2.80. The problems suggested here might well develop so that they could only be tackled by a devaluation to the $1.00—$1.50 range. The dreaded costs-wages-costs spiral could not be avoided if we were forced into a devaluation of this degree, and yet such stringent measures seem inevitable if we are to find our way out of the difficulties assumed in this example.

This note has not examined all the possible effects of a real dollar crisis; for instance, the possible cuts in the essential capital development programme have been ignored. An attempt has been made to indicate what a *real* dollar crisis might involve. It is quite possible that we shall not be faced with such a crisis, but it is certainly possible that we may drift into it if we assume, on the basis of past experience, that all dollar crises are phoney.

SALIENT FIGURES OF THE MONTH

*December : †February. All other figures refer to January.

			Latest Month	Increase (+) or Decrease (−) on a Month Ago	Increase (+) or Decrease (−) on a Year Ago
MANPOWER					
Total manufacturing industries ..	(thousands)		8,411	+ 38	+210
Registered unemployed (G.B.) ..	do.		372.3	+ 42.0	− 3.4
PRODUCTION					
Index of production	(1946=100)	*	131	− 8	+ 8
TRADE					
Value of imports	(£ millions)	†	181.7	− 19.5	+ 19.7
Value of exports	do.	†	155.7	− 20.2	+ 15.0
Volume of exports	(1938=100)		—	—	—
Freight train traffic	(million tons)		5.54	+ 0.20	+ 0.10
Retail sales	(1947=100)		115	− 48	+ 11
FINANCE					
Currency in circulation	(£ million)		1,229	− 39	+ 8
WAGES AND PRICES					
Weekly wage rates	(1947=100)		110	+ 1	+ 2
Retail prices	(1947=100)		113	Same	+ 4
Wholesale prices	(1930=100)	†	245.2	+ 0.6	+ 24.1
Import prices	(1938=100)		124	+ 2	+ 6
Export prices	do.		114	Same	+ 1

Major Economic Changes in 1949

The post-war period of reconstruction is over, and it is painfully evident that the present distortion of world trade has become a chronic condition

The end of the post-war period of reconstruction and reconversion has provided a new setting against which the long term problems of full employment, economic development and equilibrium in international trade and finance need to be re-evaluated.

In the industrially advanced countries, the maintenance of full employment has thus far been virtually assured through the high level of demand arising from the requirements of reconstruction and reconversion and the satisfaction of pent-up demand. The problem confronting these countries is to ensure the maintenance of effective demand at full employment levels whenever the automatic operation of the market forces no longer suffices to achieve this result.

In under-developed countries, reductions in the income derived from their exports of primary commodities served to emphasize once more the sensitivity of their economies to fluctuations in economic activity in industrialized countries and the obstacles which this places in the way of their steady progress in economic development. Since the most pressing need of the under-developed countries is to raise their standards of living, the principal problem which they face is how to mobilize their domestic resources and how to supplement them with foreign resources so as to achieve rapid and balanced economic development and at the same time reduce their vulnerability to economic fluctuations in other countries.

Although the need for long term adjustments in the world structure of production and trade had been evident for some time because of the persistence of the unbalance in international payments, it was underlined by the aggravation of the unbalance during 1949 as a result of the decline in United States imports.

Stated more generally, economic developments during 1949 stressed the inter-connexion between the problems of full employment, economic development and balance in international economic relations and, consequently, the necessity for a co-ordinated approach to them. In particular, the trade and payments setback of 1949 demonstrated anew that, given the objectives of the Charter of the United Nations, progress in solving the difficult and long term structural problems underlying the present unbalance in international transactions can be made only in a context of full employment in the industrialized countries and progressive economic expansion in the under-developed areas.

The world output of foodstuffs, raw materials and manufactures in 1949 was, according to present estimates, between 20 and 25 per cent.

From Major Economic Changes in 1949, *U.N. Economic and Social Council, Lake Success, Feb.* 8, 1950.

greater than in 1937. The 1949 output was a little above that of 1948 which in turn was over 10 per cent. greater than that of 1947.

The present chronic unbalance in international trade derives essentially from long term structural maladjustments for which no remedy is yet in sight. At the same time, the crisis in international trade which led up to devaluation demonstrated the sensitivity of international trade to declines in imports of any important trading country resulting from a weakening of internal effective demand, and the need for preventing the international propagation of deflationary movements.

Three Viewpoints

The present structural maladjustments in world trade may be considered from the point of view of Western Europe, the United States and the under-developed countries.

The balance of payments difficulties of Western Europe cannot be ascribed entirely to dislocations caused by the last war. It is true, of course, that the inability of the countries of Western Europe to pay their way in international trade has stemmed in considerable part from devastation suffered during the war. To meet this temporary problem these countries received foreign aid designed to enable them to tide over the period of reconstruction.

However, despite the fact that their industrial output has regained or exceeded pre-war levels, they have not been able to restore a balance in their international payments. In some of these countries, total exports are still considerably below total imports. Where exports and imports are more nearly in equilibrium, the balance achieved is largely illusory, since export surpluses with soft currency areas cannot be used to offset import surpluses with hard currency areas.

The outstanding characteristic of the trade of the United States is that while it represents a significant proportion of international trade, it is of limited importance to the domestic economy. Thus, United States exports in 1948 amounted to only 5 per cent. of gross national product, whereas they comprised 23 per cent. of world exports. There appears to be almost an inherent tendency for the United States to export more than it imports, owing to its exceptional degree of self-sufficiency. The fact that imports into the United States have not even begun to approach the level required to balance United States exports has been a fact of major significance in preventing the achievement of a better balance in international transactions.

American Exports

Since the war, a considerable part of the export surplus of the United States has been financed through United States loans and grants to foreign countries as well as through the reduction of the gold and dollar reserves of deficit countries. During the period ahead, the United States will need either to finance a continuing export surplus or to make the adjustments necessary to permit a more nearly balanced trade by increasing imports, decreasing exports or both. The latter course would necessitate an increase in effective demand at home, to offset reductions in the export surplus, as well as adjustments in the structure of production.

The tendency of under-developed countries to retain for domestic consumption a growing proportion of their food and raw materials does not necessarily mean that the volume of their exports of primary commodities will decline. Several

countries, such as Australia and Canada, have been able to raise their standards of living and to advance their industrial development while continuing to make available large quantities of food and raw materials in world markets; the United States itself is the world's most important source of internationally traded food and raw materials, as well as of finished manufactures. On the other hand, those under-developed countries which possess large populations in relation to presently developed resources would be likely to export food and raw materials only in so far as there was an advantage on balance in a deliberate limitation of internal consumption levels, so as to obtain urgently needed imports.

In the absence of foreign long term loans on a very considerable scale, exports of primary commodities would for some time be likely to constitute the most important way for under-developed countries to earn the foreign exchange which they require for imports of capital equipment and other essential goods. The importance of obtaining imports of capital equipment to the economic development of their natural resources on a more balanced basis may serve as a powerful incentive to under-developed countries to expand production of primary commodities so as to permit the maintenance or even to increase their ex-

Ratio of Imports and Exports to National Income of Certain Countries
1929, 1937, 1947 and 1948

Country *a*	Imports				Exports			
	1929	1937	1947	1948	1929	1937	1947	1948
Belgium-Luxembourg	44 *b*	41	39	34	37 *b*	38	28	29
New Zealand *c d*	22 *e*	33	34	28	33 *e*	37	34	35
Finland *c*	35	34	21	21	33	34	20	18
Denmark	34 *b*	27	21	22	31 *b*	25	16	17
Canada	28	20	24	21	25	25	26	25
Netherlands	45	34	38	39	33	25	17	21
Philippines	—	—	32	—	—	—	16	—
Norway	—	36	47	43	—	23	22	24
Japan	17 *b*	23	—	—	16 *b*	20	—	—
Czechoslovakia	30	18	15	18	30	20	15	18
Australia *f*	18	15	19	21	13	17	23	28
Sweden *c*	19	19	22	20	20	17	14	16
Mexico *c*	14	13	15	13	21	17	10	11
Greece	32	26	13	—	17	16	5	—
Switzerland *c*	27	21	29	—	21	15	20	—
United Kingdom	29	22	21	22	20	13	14	17
Hungary *c f*	16	9	10	—	19	11	7	—
France *c*	25	—	11	12	22	—	7	8
United States	5	4	3	3	6	5	8	6

Source: United Nations Department of Economic Affairs, Division of Economic Stability and Development. The figures, rounded to the nearest full per cent., represent merchandise imports and exports in national currency, expressed as a percentage of national income at factor cost in such currency.

a In order of magnitude of ratio of exports to national income in 1937 *or* 1938.

b Belgium-Luxembourg, Denmark and Japan: 1930.

c Finland, France, Hungary, Mexico, New Zealand and Switzerland: When computing the ratios for 1929 *and* 1937, *the available national income figures for these years have been adjusted so as to be comparable with new series beginning in* 1938 (*in the case of Mexico in* 1939).

d Years beginning 1 *April.*

e 1931.

f Australia and Hungary: Years beginning 1 *July.*

ports of such commodities and, at the same time, allow for a rise in the level of home consumption.

Any measures which would assure stable markets for their exports would serve as a further stimulus in this direction. On the import side, it appears likely that under-developed countries will find it increasingly necessary, even under the most favourable circumstances, to conserve their foreign exchange resources by according high priorities to imports of capital goods and other urgently needed supplies and by restricting their imports of less essential consumer goods, particularly those which can be produced domestically.

Industrial development in the under-developed countries thus has important implications with respect to the structure of production for export on the part of their trading partners. A recognition of the essential long range changes in the distribution of the world's productive facilities involved in the course of economic development is a first step in determining the adjustments required if international trade is to satisfy in greater measure the respective needs of industrialized and under-developed countries.

German Competition Now Imminent

By PETER GALLINER

In West Germany wages are up 20 per cent and prices by 200 per cent. Inadequate investment funds command interest at 8-10 per cent. An outlet for German goods is essential

HOUSING continues to be the main domestic preoccupation of West Germany, and, though the Central Government has announced a 2,250 million DM (£210 million) programme for the construction of 250,000 flats, economists doubt whether the Government will be able to carry the plan through.

This and similar projects could, however, well serve the double purpose of reducing the still-rising unemployment figures as well as providing new houses. Those fortunate enough to have a job try to augment their earnings by overtime, since average wages are very low. The end of food rationing has made little difference to the ordinary worker, who can still only afford to buy as much as he did under rationing. True, nobody in Western Germany need go hungry to-day—not even those on unemployment relief—since, in contrast to pre-currency reform days, bread, potatoes and cheap fish are within the reach of all. But meat and butter are luxuries for most people.

One result of the difficulties faced by the average household is that the German worker, who has always objected to women working in industry, to-day urges his wife to seek employment. Another source of additional income, though, of course, only available to a minority, is to take a second job in the evening or

From The Spectator, Feb. 17, 1950.

at night. A good deal of war damage clearance and road repairing is carried on at night by workers who have another job during the day. While this is officially forbidden, and must in the long run prove an enormous strain on those who do it, it does reflect the lack of balance between wages and prices. Average working class earnings have risen only 10-20 per cent. above their pre-war level, whereas food prices are up by 200-250 per cent.

Foreign Capital Needed

The disequilibrium of German economy is also typified by the inflated level of interest rates—8-10 per cent.—which is caused by the inadequacy of investment funds. Industrial and commercial circles are pressing for the removal of the ban on the investment of foreign capital, arguing that this offers the only hope of re-equipping and modernizing German industry and of reducing prices for both home and export markets.

It is, however, impossible to avoid the impression that, as a whole, West German industry has not yet become export - conscious, particularly as far as the West is concerned. Apart from certain industries, which traditionally rely on foreign markets for a major proportion of their business, such as the optical, fine mechanical, pottery and cutlery industries, manufacturers are still able to find adequate outlets for their goods at home, where sales involve less effort. When producers must export, they tend to give first attention to Eastern European markets, which for one thing represent traditional, well-known outlets and also involve far less competition with other producing countries than would have to be faced in Western Europe or overseas.

So far the danger is not great because East Europe has little to offer in exchange. The only goods for which the West German economy has to rely on East Germany are potash and china clay, since the grain which was formerly one of the main imports from the East is not now available to any great extent. Britain and other West European countries will inevitably be faced before long with the choice between strong German competition in Western markets and allowing the West German Republic to be drawn closer into the East European orbit.

Up to now intensive West German competition has been confined to a few fields, but it is likely to become more widespread before long, especially in coal, steel, bicycles, cars, chemicals, toys, musical instruments and so on. Many of the lists of imports from E.R.P. countries which will henceforth be free from quota restrictions have as yet not been made applicable to West Germany. Important decisions of policy such as the extension of these lists to West Germany may decide the economic, and therefore the political, orientation of Germany for many years to come.

AMERICAN BUDGETARY POLICY

Mr. Ronald Brech, Assistant Editor (Commodities and Trade) of *The Economist*, will speak on " Implications of American Budgetary Finance " at a meeting of the Economic Research Council in the Angus Room, 55 Park Lane, London, W.1., on Wednesday, April 19, at 8 o'clock. Non-members will be welcome if they will send a note of their intention to be present to the Secretary, Economic Research Council, 18 South Street, London, W.1. (GRO. 4581).

Too Many Manufactured Exports?

It is not merely a question of invading the markets of North America. Non-dollar countries must avoid the danger of being driven from world markets in which they still place a volume of goods

It may be that inability shown by the other parts of the world to sell in the dollar area the volume of goods and services required to pay for their dollar imports, depends to some extent on their production costs, which are too high to compete successfully with American goods. If this be so, then we must inquire what the level of production costs should be in those other countries to enable them to raise the volume of their exports to the figure needed for bridging the present gap. We must also ask whether it will be materially possible for countries short of capital and often lacking the necessary skills to lower their costs sufficiently to enable them to compete successfully with American producers. The conditions under which they work compel those countries to adopt less efficient systems than those in use in America, and in order to compete they would have to lower wages below minimum social standards and often even below the subsistence minimum.

But on reaching this point of our inquiry we are bound to ask ourselves what would be the American reaction if European or Asiatic producers were indeed to succeed in lowering costs to such a degree as would enable them to compete successfully in the American market. It is all very well for the United States to urge Europe and the rest of the world to acquire dollars by offering on the American market better and cheaper goods than those produced at home. They will urge this so as long as they are convinced that foreign competitors will never be able to vie with domestic producers, and will at most secure a very small margin of the purchasing power of the American people. But there can be no doubt that this attitude would promptly change should foreign competition really begin to make itself severely felt.

These problems must be looked squarely in the face if we are not to foster ungrounded hopes, such as that of solving the dollar scarcity and balancing Europe's international payments by invading the American market.

Nevertheless, the problem of costs is the most urgent and unavoidable of all those that harass this old continent of ours. It is not a question of invading the markets of North America, but of avoiding the danger of being ousted from all those world markets—markets in which we still succeed in placing a certain volume of goods because America is not, for the time being, in a position to meet demand in full, and because, on the other hand, the non-European countries cannot dispose of all the dollars they would need for purchasing all

their supplies in the United States.

We cannot here inquire into what Europe could do to lower her costs adequately without lowering the living standards of her working population—for this is the problem that has to be faced—but even if it were solved could it then be truly said that the economic balance of Europe has been secured, and with it world economic equilibrium?

No Illusions

A categorical answer cannot be given to this question. All would depend, of course, on the degree in which the European countries could succeed in excluding the United States from other extra-European markets. No one, however, can cherish the illusion that such a task would be an easy one. And if one reflects on the size of the deficit with which the European balance of payments will close, even after the Marshall Plan comes to an end, it is hard to believe that a solution of the problem could thus be secured, especially when we remember that Europe must first avoid the danger of being herself ousted from the non-European markets. And here again, account must be taken of the inevitable measures the North American producers would certainly take—availing themselves of all their resources, so much more powerful than ours—to maintain their position in the markets they now supply.

The idea that the United States might voluntarily renounce exporting to overseas markets those industrial products that Europe could supply and which offer her the only means by which she can pay for her essential imports, is undoubtedly an attractive one, but it has no basis in fact. Moreover, even if Europe were to overcome American competition and conquer some of the important markets now occupied by the U.S., this would inevitably react disadvantageously on American economy, leading to a most serious depression whose consequences could only react unfavourably on the whole world, including Europe.

No less serious would be the consequences for the other parts of the world, if America were to decide at a given moment to follow a policy of splendid economic isolation, and ceased to export her products to other continents.

All this points to one fact, viz., that our present-day world is suffering from potential over-production and excess export capacity. But this excess exists—and tends to increase—only in the case of manufactured goods. It does not exist, and does not seem likely to arise—unless a major economic depression should occur—in the case of raw materials and foodstuffs.

The Wider Problem

But this potential disequilibrium is not the most serious aspect of the question. Considered from a general standpoint it might even seem to offer prospects of improvement in the ratio of exchange between primary products and finished goods. It is the territorial distribution of the excesses of output potential and export capacity that gives most cause for anxiety. This distribution no longer corresponds, as it did in the 19th century, to a system of complementary economies which allowed and encouraged well-balanced trade currents. We are now faced by the highly complex problems arising from the need of importing large quantities of products from a country that need only import very limited quantities of foreign merchandise. Even supposing that the problem were settled by an increase of American imports rather than by a reduction of American exports, the

least we could expect would be a considerable deterioration in the ratio of exchanges between the U.S. and the rest of the world, to the loss of the latter. But the possibility of righting the balance of world economy by such means is extremely dubious.

There would therefore seem to be no practical solution for the problem, unless it should prove possible to create new sources of supply for raw materials and foodstuffs, and new outlets for the manufactured goods of the over-peopled countries like those of Western Europe, on the one hand, and Japan on the other.

But even should such a plan for restoring adequately complementary and therefore balanced economies as between the several areas of the globe, be taken into consideration, and should steps be taken to bring it about, the target aimed at could only be reached at a still distant date.

WORLD TRADE

"Fortune" Backs the City — And the Pound

First requirement of a good trading currency is that people should be as willng to give it up as to accept it. The trouble with the dollar is that no one wants to give it up

That a definite shift in financial power has occurred is obvious. But nothing is easier to underestimate than London's ability to come back. Britain not only remains the second industrial country of the world; she must trade to live. She is therefore bound to go on banking for her trade.

Her shipping strength practically back to normal, she will continue to handle a large percentage of the world's freight, and will write its insurance and finance a good deal of its movement. Her sterling area is at present more of a burden than an asset, for she still owes its members over £3 billion for war-time help, and her attempts to honour these obligations are chiefly responsible for her unending "crisis."

But the problem of sterling balances will probably be solved somehow, perhaps with American help, and Britain will probably continue to bank for the area. The Socialist Government may relax its quotas and restrictions. The pound, in short, may become again a first-rate trading currency.

As a matter of fact, the pound still is, in some ways, a more useful and important international currency than the dollar. A prime requirement of a good trading currency is that people should be as willing to give it up as to accept it. The trouble with the dollar in its hard solitary grandeur is that nobody wants to give it up, and it accordingly func-

From Fortune, Chicago, Feb., 1950.

tions as a medium of hoarding as much as a medium of exchange.

Countless international deals are being financed in sterling, after much finagling, simply because dollars are not "available." Chilean traders exporting to Europe, for example, use sterling. If the dollar were the kind of currency the pound once was, it could finance these deals. Only if the day ever comes when the world has "enough" dollars will they become a perfect trading instrument.

But it so happens that the dollar "shortage" probably cannot be straightened out until the pound is freely convertible to dollars. So in any event London may well recover something of its old eminence—especially if the U.S. again devotes its time and attention almost solely to the home market.

And there is the rub. The main obstacles in the way of U.S. world financial supremacy boil down to the American preoccupation with the home market. Unlike England and the Netherlands in the great old days, the U.S. is not a country dedicated to free international trade. The American tariff structure and the administration thereof, as *Fortune* pointed out in December, are anything but those of a trade-minded nation. And New York, unlike London in the great old days, is not crowded with wealthy people itching to invest abroad.

For one thing, high taxes have reduced the supply of wealthy people itching to invest *at home* below the need and demand for them. For another, few foreign investments can compete with domestic investments in safety, yield and marketability. For still another, Americans got burned on about half the foreign securities they bought in the 1920's, and have given them a wide berth ever since.

So foreigners and foreign countries looking for long term credits—and Americans wanting to finance capital goods exports—go to the government-operated Export-Import Bank or to the International Bank for Reconstruction and Development, both of which, in a way, owe their existence to the inability or disinclination of Americans to invest abroad.

WAGE DIFFERENTIALS

It has been argued that if an attempt were to be made to approach a national minimum, then all wages would need to be raised to preserve existing differentials. This implies that all these differentials have a rational basis, that they are needed to encourage the acquirement of certain skills or the acceptance of responsibility. In fact, this is precisely one of the important open questions, which badly requires impartial and expert investigation as an aid to the settlement of disputes. Perhaps in some industries the difference between the wages of the skilled and unskilled workers is no longer adequate to ensure an adequate number of new entrants for the skilled employments. Perhaps the greater differentials that existed in the past were mainly the product of historical factors, like the strength of craft unionism, or the result of supply and demand operating under conditions of unemployment. Perhaps responsibility and skilled employment bring their own reward. The point is that we do not know, and, until we make the necessary provision to consider wage claims on their national merits, we shall not know.

Socialist Commentary, London, January, 1950.

The Impact of Sterling Balances

By EUGENE J. KAPLAN

British Commonwealth Branch, U.S. Dept. of Commerce

An American discusses the problem of Britain's war debts, but offers no solution

THE negotiators of the Anglo-American Financial Agreement (December, 1945) looked forward to an early return to multilateral world trade through the removal of restrictions on the movement and convertibility of sterling imposed at the outbreak of World War II. One section of the agreement specifically provided that the United Kingdom would make arrangements to restore the convertibility of the £ sterling by mid-1947.

The British Government did initiate a period of convertibility in July, 1947, but this effort had to be abandoned after a short time because it resulted in a heavy drain on the sterling area's gold and dollar resources. The British Government's decision to make sterling earned on current transactions convertible into dollars, however, lent emphasis to the need for segregating currently acquired sterling balances from wartime accumulations.

Prior to the convertibility experiment, financial agreements were concluded with Argentina, Brazil, Egypt, India, Iraq, Pakistan and Uruguay which provided among other things for the setting up of two separate accounts at the Bank of England in the name of the central bank of the country concerned. The No. 1 Account was to be credited with all sterling earned after the date of the agreement, while a No. 2 Account was set up to hold previously accumulated sterling.

The funds in the No. 2 Account were to be blocked from current use except as releases from these accounts to the No. 1 Account for current use. One agreement—that signed with Argentina on September, 1946—provided for funding £130 million of the Argentine balance at a rate of interest of ½ of 1 per cent. No measures, however, were taken to write down any of the outstanding balances.

In addition to these formal agreements, understandings were arrived at for the voluntary blocking of outstanding balances held by Australia, New Zealand, the Union of South Africa, and the colonies. *In all, it is estimated that approximately half of the total balances of £3,560,000,000 outstanding on June 30, 1947, were placed under control.*

Total sterling balances have declined by nearly £500 million since they reached their highest point in 1946. The amount of the sterling balances held by sterling area and non-sterling area countries just before World War II and at various dates in the post-war period is shown in Table I. It will be seen from these data that the amount outstanding on Dec. 31, 1948, was £3,359 million, or approximately the same as on

June 30, 1945.

What has happened in this interval and through the first three-quarters of 1949 though, is a marked shift in the distribution of these balances among the different creditor nations. On the one hand, accumulated balances held by Argentina and Brazil have been reduced through the sale of British-owned railways in those countries. The sterling balances of Egypt, India, Pakistan and Ceylon have been reduced through periodic releases from the blocked balances negotiated by the United Kingdom from time to time.

At the same time, the sterling balances of some of the other sterling area countries, notably Australia and British West Africa, have continued to grow.

TABLE I
External Sterling Liabilities of the United Kingdom,
1939, 1945-1949
(£ million)

Date	Held by—		
	Sterling area countries*	Non-Sterling area countries	Total
Sept., 1939.......	†250	†226	476
June 30, 1945...	†2,207	†1,148	3,355
Dec. 31, 1945....	2,453	1,210	3,663
Dec. 31, 1946....	2,417	1,283	3,700
Dec. 31, 1947....	2,288	1,284	3,572
June 30, 1948...	2,408	1,144	3,552
Dec. 31, 1948....	2,322	1,037	3,359
June 30, 1949...	2,224	1,009	3,233

**Egypt and Anglo-Egyptian Sudan, which left the sterling area in 1947, and Israel and Hashemite Jordan, which left the sterling area in 1948, are included in he non-sterling area for the whole period.*
†*Estimated.*
Source: *Cmd.* 6707, *Statistical Material Presented During Washington Negotiations, and, Cmd.* 7793, *United Kingdom Balance of Payments,* 1946 *to* 1949.

Australia and New Zealand have written off about £40 million of their sterling balances in the form of gifts to the United Kingdom since the end of the war. One way of describing this trend is to say that there has been a transfer of some of the United Kingdom's liabilities from those creditor nations which might be expected successfully to exert pressure for further releases from the balances to those which can be expected to co-operate with British efforts to keep these funds under control.

In Table II an attempt has been made to piece together from the figures given in the United Kingdom balance of payments on capital account the major components of changes in the sterling balances held by sterling area countries in 1946, 1947, 1948 and the first half of 1949.

Except for 1946, when the United Kingdom ran a current deficit with the rest of the sterling area, the sterling area countries as a group have drawn heavily upon the sterling balances during this period to finance their trade and payments with the United Kingdom. The balances have been reduced further by the rest of the sterling area's net drawings of dollars from the central foreign exchange reserves of the sterling area.

Gifts to the U.K.

Such drawings were especially heavy in 1947 during the brief period of convertibility. Australia and New Zealand have liquidated a portion of their balances by gifts to the United Kingdom in 1947 and the first half of 1949. Reductions in the balances have been offset by a net flow of capital from the United Kingdom to the rest of the sterling area in each of these periods except 1946. These capital movements were particularly large in 1947 and 1948, the latter having been a year in which there was a net increase in the sterling balances held by the sterling area countries.

The item "other transactions" is derived as a residual, figures for the net change in sterling balances and for the four other major elements of the change being given. A large portion of "other transactions" probably consists of the balance of sterling

transfers between the rest of the sterling area and countries outside of the sterling area and the dollar area—mainly Marshall Plan countries—which may arise out of the operations of the central foreign exchange reserves of the sterling area.

TABLE II

Changes in Sterling Balances Held by Sterling Area Countries, 1946-1949
(£ million)

Item	1946	1947	1948	First half 1949
Sterling balances at beginning of period	2,453	2,417	2,288	2,322
Increase (+) or decrease (—) in balances due to :				
United Kingdom current deficit or surplus with rest of sterling area ..	+40	—55	—210	—115
Releases for conversion into dollars..................	—17	—203	—26	—43
Gifts from Australia and New Zealand..................	-	—30	-	—8
Capital movements between United Kingdom and rest of sterling area...	—42	+221	+188	+47
Other transactions*	—17	—62	+82	+21
Net change in sterling balances......	—36	—129	+34	—98
Sterling balances at end of period.........	2,417	2,288	2,322	2,224

**Residual—mainly transfers of sterling between rest of sterling area and countries outside the sterling area and the dollar area.*

Source : *Cmd.* 7793, *United Kingdom Balance of Payments* 1946 *to* 1949, *Oct.*, 1949.

Under this system the non-sterling proceeds of sterling area exports to countries outside the sterling area are sold to the United Kingdom for sterling. Non-sterling currencies are in turn purchased with sterling from the central reserves when required to pay for imports of goods and services from non-sterling area countries. A favourable balance of payments would thus mean that the rest of the sterling area has sold more non-sterling area currencies than it has purchased from the central reserves and would therefore result in a sterling credit on the United Kingdom in favour of the rest of the sterling area. These credits would serve to increase the sterling balances held by the sterling area countries.

On the other hand, a deficit on trade and payments between the two areas would be financed by drawing down the sterling balances. *On the basis of such data as are available, the rest of the sterling area evidently had a favourable balance of payments with the O.E.E.C. (Organization for European Economic Co-operation) countries in* 1948 *and the first half of* 1949.

One of the reasons why the rest of the sterling area had an export surplus with the O.E.E.C. countries during this period may be the sizeable sterling drawing rights made available by the United Kingdom under the Intra-European Payments Plan. In any case, the shift of this item from a factor acting to decrease the sterling balances to one which increases the balances was most significant in 1948.

Working Balances

Besides financial agreements made by the United Kingdom with countries holding sterling balances restricting the current use of part of the total balances, their liquidity is determined by the same factors as before World War II. A portion of these balances cannot be readily drawn upon because they serve as working balances and currency backing for the nations involved. As the balances have grown, the rise in prices and in the volume of trade have required increased working capital.

Increased trade plus general inflationary pressures throughout the world have brought about an expansion of currency issues and necessitated more reserve backing. Thus, a substantial proportion of the balances will probably continue to be held as reserves by the countries concerned. The remainder, however, still represents a formidable

claim on the United Kingdom's production of goods and services.

Although the total of the sterling balances as at the end of 1948 was the same as mid-1945, the United Kingdom has made a considerable effort to pay off a portion of these war debts. Sterling releases from restricted to current accounts made in accordance with formal agreements with Argentina, Brazil, Ceylon, Egypt, India, Iraq, Pakistan, Uruguay and Israel from the beginning of 1946 through the first three-quarters of 1949 totalled nearly £635 million and were distributed over the period as follows:

	(£ million)
1946	5
1947	156¼
1948	*267
1949	218

***These figures take no account of the payments to India and Pakistan for the purchase of annuities from H.M. Government and for defense stores, but include sums paid in connection with the purchase of British-owned railways in Argentina.**

Hansard, May 24 & November 2, 1949, and March 9, 1950

The total amount of releases is, of course, no absolute measure of the amount of "unrequited exports" during this period, because other factors such as investment, capital transfers and other complex transactions involving the balance of payments on capital account must be considered. It does, however, indicate why "unrequited exports" have become such an important issue.

One of the major objectives of the foreign economic policy of the United States Government is to work out conditions under which world trade can develop steadily and in increasing freedom from the elaborate network of restrictions and controls that have made the ordinary business of international trade so extraordinarily difficult and complicated. An important prerequisite to achieving this goal is the free movement of currencies of the world's major trading nations and the ability to convert any one of these currencies into those of another country.

The international movement of few other currencies is as strictly regulated as that of the pound sterling. The British exchange control system has been highly developed, though perhaps not sufficiently to prevent substantial leakages and evasions from time to time. A series of dollar crises since the end of the war have induced the British to maintain and to strengthen their exchange controls.

Some authorities believe that the role of the convertibility experiment (July 15-Aug. 20, 1947) in the rapid exhaustion of the American credit has been over-emphasized. It is held that the proceeds of the American loan would have been expended at a rapid rate even if convertibility had not been restored, inasmuch as the dollar needs of the United Kingdom itself were great, and sufficient measures had not been taken in 1947 to correct basic maladjustments in the British economy. Nevertheless, the establishment of convertibility was responsible for a substantial loss of dollars during this brief period.

Gold and Dollar Reserves

Sterling area gold and dollar reserves reported for the fourth quarter of 1949 showed an increase from the very low level to which they had fallen just prior to devaluation. These reserves are still considerably below the minimum level considered necessary by the British Treasury to meet the working capital and other requirements of the sterling area. However, some observers question whether convertibility of the pound would be feasible even if these reserves should continue to show improvement and to reach and even exceed the minimum current requirements of the sterling area. To

them, the existence of the sterling balances, nominally blocked but not under control, continues to be one of the most formidable barriers against the return to convertibility.

The controversy over the problem of the sterling balances is not a new one, nor is it ended. Recent economic developments in the United Kingdom may have intensified the pressure to seek a settlement of these balances. A solution to this problem, however, must take into account not only economic but equally complex social and political factors as well. Moreover, such a solution cannot be the result solely of British policy with respect to these balances, but must be negotiated with the other countries involved.

These difficulties do not necessarily mean that no adequate settlement of the sterling balances can be worked out, but they do point out why the problem of the sterling balances may continue to influence the international trade and financial policy of the United Kingdom for some time to come.

They are saying . . .

President HARRY S. TRUMAN

To abolish Lend-Lease at the time (1945) was a mistake. But I was " new " then; the papers had been prepared for Mr. Roosevelt, and represented a Government decision. I felt there was nothing else I could do but sign. I had then no staff and no Cabinet of my own.—*Interview, New York Times, Feb.* 15, 1950.

Professor JOHN JEWKES, Oxford

We cannot maintain our exports without Marshall Aid. Without these exports we cannot buy our food. Our food supplies, therefore, are still just as uncertain as is the continuance of Marshall Aid. This is precisely the point Sir Stafford Cripps made in the House of Commons when he said : " Were we obliged to go down below the $1,200 million import level, we should certainly be unable to maintain the flow of raw materials necessary for full employment and full production."—*The Times, London, Feb.* 6, 1950.

J. K. MITCHIE, Chairman, National Bank of India, Ltd.

Banking, perhaps overseas banking particularly, continues to be presented with problems the responsibility for which lies in other hands. There are, for instance the ever present risks of currency revaluation but that apart, the three most important factors contributing to this situation are the scarcity and shyness of investment capital, the high incidence of taxation and the high costs of production. These three factors are interrelated and react on each other and on banking problems. The crux is taxation, for it can hardly be gainsaid that reductions in such levies would both create and release risk capital, of which there is such obvious dearth, and tend to reduce costs. I respectfully suggest that Governments should again study all aspects of that well-known economic tenet known as the law of diminishing returns.—*London, Mar.* 2, 1950.

CHARLES GARLAND, Vice-president, National Union of Manufacturers

Our grandfathers worked six days a week, walked to Church on Sundays and sang : " Work for the Night is Coming." Now their grandchildren work four days a week, take a bus to Church and hear a hired choir singing : " Art Thou Weary, Art Thou Languid ? "—*Manchester, Mar.* 14, 1950.

A Policy for Increased Output

The British Institute of Management invited three of its members to comment on a leader in The Times entitled "A Policy for Output." Here is a quotation from the leader, followed by summaries of the comments

"*ON the one hand there is the view that what is wanted to increase productivity is less 'committee mongering' and more time on the job; on the other, there is the view that simpler advisory bodies at the top and vigorous new joint bodies for each industry could do much. Only an effective economic policy can give the indispensable stimulus and incentive to greater efficiency, larger output, and the more economic marshalling of man-power, but the worth of men and managers deliberately working together in the right directions always remains. The only source of greater production can be the place of work, and harder work and better management are at the heart of it . . .*"

INDUSTRIALIST

Sir Charles Renold, Chairman, Renold and Coventry Chain Co., Ltd.

As regards concentrating on the job in the workshop as against improving the working of committees at the top of industries, the antithesis is unreal. These are not alternative policies and to treat them as such is a confusion of thought.

The problem is more production—the creation of more wealth. Now, committees as such produce nothing; creation lies with the producing unit—the factory, the mine, the shipyard, the power station. It is the skill with which operations there are conducted that determines production and productivity. It is there that morale is determined, not at national or industrial top level. The rôle of top level committees should be to establish and maintain conditions within which the individual producing units may be given their heads. It is with such a rôle in mind that the adequacy of existing top level committees should be judged.

Given then an economic policy that is sound in concept and a technique of operating it by means of inducements that work with the grain of society and not against it, and given top level committees that stick to their proper rôle of "setting the stage" for the individual producing units, the means to increased productivity is to be sought in the better management of the individual unit.

EDUCATIONALIST

Dr. A. M. Brown, Warden, Burton Manor College

THE immediate problem is better output "on the job"; but a change of environment and an opportunity to think is not wasted here—especially with the foremen who must bear the brunt of the struggle for greater production. Even in these times there is a value in getting managers and men away from the environment of their own factory for

From B.I.M. Management Bulletin, London, February, 1950

one or two weeks to study "Human Factors in Industry," "Management Problems," "British Industry and Commerce To-day" and "Supervisory Management." The time is short in view of the magnitude of the problems; but well used through careful planning and organization, it can be invaluable.

Lack of education training facilities is cumulative in its effects and I would plead for continuance and expansion of such schemes wherever practicable, for men and machines make history and it is with this all-important human material that management and educational institutions must become more and more concerned if we are to regain our rightful place in the world.

TRADE UNIONIST

T. Williamson, Gen. Secty., Nat. Union, General and Municipal Workers

First of all, there must be confidence on each side. Old inherited suspicions between workers and management must be eliminated. The worker must be able to feel that he is a necessary part of the organization and not just a number, booking on, performing his allotted task, drawing his wages, and being expected to accept all and every order without knowing why and the reasons for them.

The majority of trades unionists understand the economic facts well enough to realize that full employment and a fair standard of living depend on efficient and economical production. On the whole they are willing to combine with the employers in the national endeavour, but it is hardly reasonable to expect them to moderate long established trade union practices, accept a sterner discipline, incur a greater risk of redundancy, entirely at the discretion of the employers. Confidence on the part of the workers that changes in industrial methods are not unfairly prejudicial to their interests is fundamental to good relations.

Further, employers must be more and more prepared to disclose to workpeople the fullest information on policy, financial position, profits and dividends. This in itself would wipe away many suspicions which exist. The attitude "why should we produce more when the boss is getting the benefit" is common, and demands attention.

A co-operative policy has been reached by discussion between the leaders of both sides of industry, but its effectiveness depends entirely on goodwill at the factory level. It is between the man or woman at the bench and the particular management that good understanding and mutual confidence is so important.

Frank discussion between management and workers' representatives on joint production and consultative committees, if conducted earnestly, is vital to increased productivity.

Production *Not* the Paramount Factor

It is often argued that differences in productivity account for imbalances in trade and that the reason the U.S. of late years has exported more than it imports goes back to its high productivity per man-hour. This explanation is wholly misleading. The determining factor in how nations in peace time settle their accounts *is their relative levels of*

From Fortune, Chicago, Feb., 1950.

prices and costs as expressed through exchange rates. Man-hour productivity determines whether a nation is rich or poor, but it has little to do with whether it runs a positive or negative balance of trade. Pakistan, for instance, does the one, India the other. From earliest times rich nations have traded with poorer nations and rich men with poorer men to the benefit of both. In the long run it is to the interest of the U.S. that the productivities of other nations rise. But productivity has rarely advanced more than 2 per cent. per year even in the U.S., and if we had to wait until all nations were as productive as ours before we could hope for better-balanced trade, we would have to wait for ever.

WORLD TRADE

The Growing Influence of Gold

An increase in the U.S. price of gold might be the means of restoring international banking liquidity. The case is also argued in Dr. W. J. Busschau's new book "The Measure of Gold."* Dr. Busschau's main thesis was summarized in The Economic Digest, Vol. II, page 385.

(1) PRICE FLUCTUATIONS IN FREE MARKETS

The long-run position of gold was greatly affected last year in three main respects:

1. After a moderate expansion in each of the early post-war years, gold output in 1949 increased by one million fine ounces. Devaluation of sterling and 30 other currencies in 1949 brought about a rise in the price of gold in terms of the devalued currencies. Although this rise was only incidental to the currency adjustments, it greatly improved the position of gold mining in the devaluing countries, which account for about 80 per cent. of world gold output outside the Soviet Union.

2. Markets for semi-processed gold were extended in 1949, and in some countries restrictions on private gold dealings were abolished. These changes were confined to the fringe of world supply and demand for gold. What, however, may prove significant in the long run is the fact that prices on world premium markets last year showed a declining trend.

3. As to international gold transactions between the monetary authorities, a moderate redistribution of gold occurred last year. United States monetary stocks, which had greatly increased in 1947 and 1948, last year rose only a little. Con-

From Engineering and Mining Journal (U.S.A.), Feb., 1950.

* *Central News Agency (South Africa) Ltd., 1949. Available from Gordon & Gotch Ltd., London*

versely, whereas in 1947 all foreign countries with two exceptions were losers of gold and in 1948 only a very few added to their holdings, quite a number began to build up their gold reserves gradually in 1949.

Gold output of the principal producing countries other than the Soviet Union was 23.8 million ounces last year, approximately one million fine ounces higher than in 1948. The post-war rise in output that began in 1946 seems thus to have continued in 1949. Last year's production was 2.6 million higher than in 1945, the post-war low, but was 12.9 million lower than in 1940, which was a year of record output.

South African output remained stationary last year at some 11.7 million fine ounces, as against 11.6 million in 1948—the first year since 1941 in which production had increased. The industry, after the September rise in price, required time to adjust its milling policy and costs.

It appears that some six million ounces now find their way annually into private hoards of gold. Last year's developments on the free gold markets suggest that the supply of gold is increasing, although demand for gold from China seems to be greatly reduced.

With the European devaluations and the categorical declarations by President Truman and the Secretary of the Treasury that there would be no change in the U.S. gold price, the hoarding of gold seems to have subsided in Western Europe. As a result, prices in premium markets such as Alexandria, Bombay, Hong Kong, Paris and Milan declined noticeably as 1949 ended.

However, premium markets for semi-processed gold widened last year. South Africa permitted sale of semi-fabricated gold at a premium "for use in industry and the arts."

Free Market Prices

Prices on the free markets showed divergent trends last year. (See table below.) In national currencies, quotations in Bombay were about the same toward the end of 1949 as in 1948, in the Middle East they increased somewhat, but in Hong Kong they fell toward the end of the year. In Paris quotations were likewise greatly reduced in 1949. In no case may local currency proceeds obtained by the sale of gold actually be converted into dollars except through black markets at various rates of discount. Premium gold prices, therefore, are in no way an indication of the intrinsic value of gold.

Continued overleaf

FREE MARKET GOLD PRICES

	Bombay		Hong Kong		Alexandria		Paris	
	Rupees per tola	U.S.$ per fine oz [1]	H.K.$ per tael	U.S.$ per fine oz [2]	E.£ per dirhem	U.S.$ per fine oz [1]	Francs per gram	U.S.$ per fine oz [2]
1946—Dec.	101	81	317	51	162	67	n.a.	n.a.
1947—Dec.	103	83	303	50	172	71	530 [3]	54 [3]
1948—Dec.	113	91	296	48	153	63	805	79
1949—Predevaluation [4]	114	92	330	49	154	64	615	59
—Dec.	114	63	291	41	169	47	583	52

(2) SMALLNESS OF THE FREE MARKET

It is noteworthy that the "Free" market is one that depends on scarcity; in 1949 when supplies have been large it has not been able to absorb more than about 5 per cent. of current South African production, there having been, owing to their foreign exchange shortage, no effective demand from India or Pakistan.

From Annual Circular, 1949, Mocatta and Goldsmid, London.

(3) GOLD FOR DOLLARS

An interesting development in the early autumn, possibly not unconnected with the recurrent rumours of impending dollar devaluation, was the purchase against dollars by various European governments of considerable quantities of gold from the United States. However, the stocks under the control of the United States Treasury were still put, at the end of 1949, at some $24,583 million—or about three-fifths of the world's officially-held stocks.

It is sometimes held, perhaps not altogether without reason, that an appropriate rise in the American gold price would benefit gold-producing debtor countries and thus help to bring about a better balance of trade, provided general conditions were favourable. This contention is not unlike that adduced recently in the United States that a devaluation of sterling would make it easier to unfreeze sterling balances. Both expedients could conceivably play their part in helping to maintain more stable economic conditions.

In some quarters the United States is being challenged to make its gold price effective not merely by buying all gold offered but also by selling it freely, either by putting it into circulation or simply by allowing its free export. The risks of such a course are clear. No one can gauge the extent of actual and future demand for gold. The policy might prove successful, but it might just as easily drive gold "under the counter," lead to "gold prices" for commodities, and tend to weaken the United States financial structure, thus bringing about the very situation it is hoped to avoid.

In the light of such reflections the riddle of the "proper" price and use of gold remains unsolved. The nice distinctions between what is allowed and what is forbidden in respect of virgin and refined metal, monetary and non-monetary gold, bars, ingots, sheets and plates, are not designed merely to hamper the trade. They represent an attempt to conciliate divergent legitimate interests in particularly baffling circumstances. On the whole they serve their purpose and will presumably be relaxed as occasion permits.

A generation has grown up to which the notion of "convertible currencies" and "gold point" is a saga of the past. In many countries gold coins—once proud and unquestioned currency—are now museum pieces or bad company. Yet in the maze of political uncertainties, managed currencies, exchange control regulations and "free market" quotations, the lure of gold as the most stable store of value and medium of exchange has gained fresh strength. It will remain a force to be reckoned with so long as these uneasy background conditions prevail.

From Bullion Review, 1949, S. Japhet and Co., Ltd., London.

(4) CONDITIONS FOR INCREASED OFFICIAL PRICE

If any increase in price is to become necessary, it should be made when, and only when, coinage and convertibility are again resumed and should be large enough to insure a continuance of the same price level for a long time to come. To resume specie payments at a price which leads to the early exhaustion of our vast gold stocks will only serve to discredit gold as the monetary standard and strengthen the hands of those who wish to perpetuate a fiat paper money standard.

The total supply of money to be backed by gold is an important element in determining price. It must not be greater than can be supported by the value of available gold at the fixed price.

Role of America

The holding by all other nations, of only 30 per cent. of total monetary gold, requires that in order for them to return to a gold standard of the nineteenth century type, the United States must take action that will make its own holding serve to assist other nations in their return to gold. This does not mean that the United States must give or lend its gold to other nations. Resumption of coinage and convertibility would cause United States gold to flow to other nations. Large amounts of American paper money are held in other countries. Resumption of coinage and convertibility by the United States would bring much of this money home to be redeemed for gold. This would reduce the outstanding quantity of paper currency and redistribute some of our huge stock of gold. It would greatly strengthen the American dollar.

Is the $35 Price Sufficient for a Convertible Gold Standard?—The Economists' National Committee on Monetary Policy and the Gold Standard League evidently answer this question affirmatively since they urge immediate resumption by the United States of coinage and convertibility without a change of price. They base their reasoning on the fact that the ratio of gold reserves to paper dollars, bank deposits and federal debt is higher to-day than before the United States stopped further convertibility and prohibited gold ownership by its citizens, except in fabricated form.

But in those years there was no such fear of the future buying power of the United States dollar as exists to-day, not to mention as great or greater fear in many other countries of the future buying power of their respective currencies. Also, there is a widespread belief, especially in European countries, that a rise in the price of gold will ultimately occur.

Money into Gold

If gold coinage and convertibility are resumed at the $35 price level, there would be two strong incentives (neither of which was present in former days) to convert money into gold:

(1) The owner would then have just as many United States dollars and in addition the stable value of their gold content.

(2) The speculative chance of a future rise above the $35 price would induce extensive conversion.

But an increase of the price of gold could be made which quite certainly would prove adequate to meet conversion demand. The real problem is to determine what that adequate price should be.

When the United States raised the

rancis H. Brownell, former chairman, American Smelting-Refining Company, writing in "The Mining Journal" London, January 27, 1950

price of gold from \$20.67 to \$35, it raised the total value of all world monetary gold from a scant \$20 billion to \$35 billion.

Also, the rise in price greatly increased mine production since it made ore, unprofitable at \$20.67 for gold, profitable at \$35. Mine production in 1932 was 24 million ounces, worth \$20 an ounce, \$480 million. The higher price gradually increased production until it reached its maximum of over 40 million ounces in 1940, worth at the \$35 price over \$1.4 billion.

Three Developments

These two additions to the gold supply have been offset by three recent developments: (1) the tremendous increase in paper money outstanding, bank credit subject to draft, and a huge total of government debt which in many areas, as in this country, can be monetized; (2) the increase in the general price level; (3) the decrease in new mine production. Costs of labour and supplies have so greatly increased as to make the mining of much ore no longer possible. Production fell from 40 million ounces, worth at \$35 an ounce over \$1.4 billion in 1940, to a production in 1948 of about 22 million ounces, worth about \$770 million.

If Congress agrees (as does this writer) with the Treasury on the insufficiency of gold at the \$35 level, then it should consider some higher price of gold at which to resume coinage and convertibility by United States citizens, as well as all others. The gold content of the dollar would be also appropriately changed. In view of the former rise from \$20.67 to \$35, a \$50 level naturally suggests itself. The following facts merit special attention.

(1) Such a price would increase United States holdings by about \$10,500 million, or from \$24½ billion, in terms of dollars, to \$35 billion. This would seem to be quite certainly a sufficient reserve to resume coinage and convertibility, since there are many students of this subject who argue that already the United States has sufficient gold at the \$35 level.

(2) The general level of commodity price has risen over 100 per cent. since 1934, while the price of gold has remained stationary. Fifty dollars for gold to-day, as compared to \$35 in 1934, is an increase of less than 50 per cent., which would be \$52.50.

(3) Percentage-wise, a rise from \$35 to \$50 would be substantially less than a rise from \$20.67 to \$35.

(4) A rise to \$50 would enable new mine production in the United States and elsewhere to rebound to the levels of 1940, and so assure sufficient gold for future increases of population and consequent increased trade.

(5) An increase of \$15 an ounce would increase the value of the gold holdings of other nations by 43 per cent., or about \$4 billion, and so would strengthen their currencies.

DILEMMA IN WASHINGTON

During one of the preliminary discussions in 1943 (in Washington) of the abortive Clearing Union, someone evolved and handed secretly round the table the following quatrain :—

The problem of working this document out
Is rendered acute by troublesome doubt :—
Ought we to love, honour, cherish and thank or
To kick on the backside the blokes who hold bancor ?

That dilemma, in new forms, still perplexes the European mind.

Professor D. H. Robertson, writing in The Economic Journal, London, March, 1950

Putting the Brake on "Point Four"

By HENRY HAZLITT

THE real barrier to international national loans to-day is not lack of potential private American investment funds, but lack of proper assurances for their safety from the governments of the foreign countries that wish to borrow. The real initiative, therefore, must come from these governments. The first reforms must come from within each country that wishes to accelerate its capital development by loans from abroad. Each would-be borrowing country must make itself credit-worthy. It must inspire or regain the confidence of the private foreign investor.

It can do this only by adopting or restoring a truly liberal economic policy. It must abandon price control, profit control and wage control, and restore a vigorous, free, competitive market economy. It must dismantle exchange control, and the whole system that goes with it—prohibitions, licensing, quotas, bilateralism, multiple exchange rates and dual-pricing. It must permit its currency to be at all times freely convertible in any amount into all other currencies, including the dollar, at whatever rates are established in a free market.

It must reduce its government expenditures and taxes to levels that do not strangle incentive, initiative and production. It must balance its budget, annually and continuously. It must abandon cheap money policies, which can only be kept going by inflation. It must stop inflating money and credit. It must restore confidence in the value of its currency unit. This means, in my opinion, that it must work its way back to a gold standard, and co-operate with other nations in the restoration of a full international gold standard. The international gold standard was the greatest adventure in international "integration" that the world has ever seen.

This does not mean that there are no steps for our own Government to take. It, too, must reduce expenditures and taxes to levels that encourage incentive, initiative and maximum production. If it wishes to leave businesses and individuals potential funds to invest abroad, it must stop taking most of those funds away in taxes. It, too, must abandon its inflationary cheap money policies. It must above all protect the integrity of the dollar. It must take the initiative in restoring a full gold standard.

From Illusions of Point Four. Foundation for Economic Education. New York, 1950.

Price Problems in Underdeveloped Countries

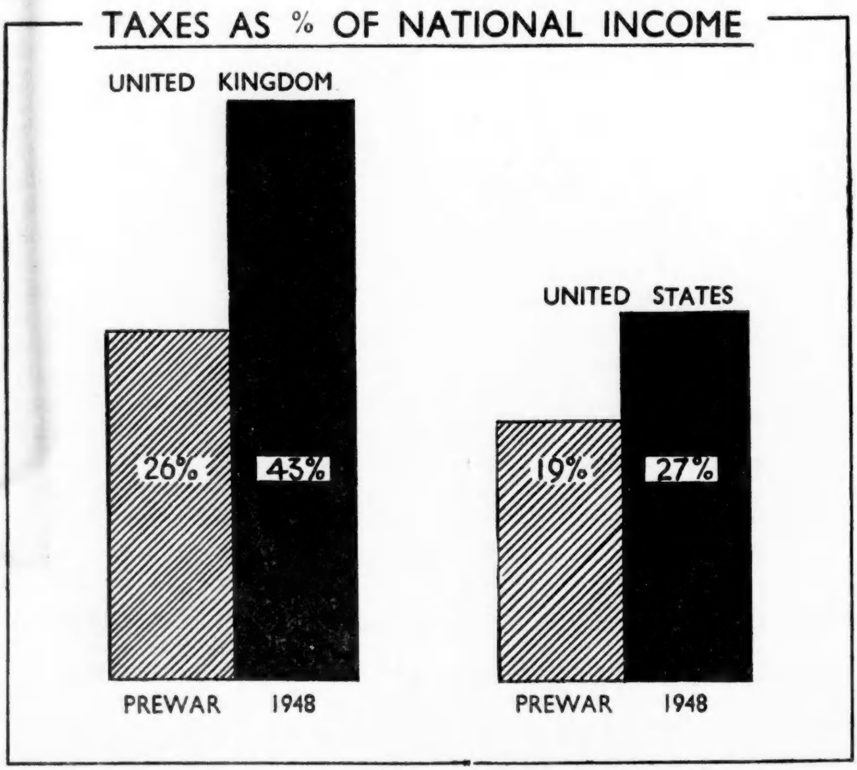
WHILE the prices of primary commodities have tended to increase more than the prices of manufactured goods since the immediate pre-war period, the terms of trade of under-developed countries in their relation with industrialized countries have failed to show an improve-

ment. This conclusion is based on a detailed study of the changes in total export and import prices of 44 under-developed countries and areas.

Some kind of international action would seem to be a prerequisite, in order to improve, or merely to stabilize, price relations of under-developed countries. International arrangements to improve or stabilize the terms of trade of primary producers thus far under consideration have been concerned with prices in an absolute sense, rather than with the more complicated matter of maintaining a given standard of price relations.

The terms of trade of under-developed countries are not the only factor affecting their economic development. Other measures necessarily continue to be important also. Foreign financing is one of these, and foreign loans and investments may become a more important resource for the economic development of under-developed countries than they are now, if stable and favourable price relations are assured.

Relative Prices of Exports and Imports of Under-Developed Countries. H.M. Stationery Offie, London, Feb., 1950.



From E.C.A. Mission to the United Kingdom

The "Progress" of Point Four

This table shows the value (in millions of dollars) of private U.S.A. direct investments abroad during the years 1945-48. Note the small proportion going to under-developed countries and the large proportion remaining in the American continent

Area and end of year	Manu-facturing	Distri-bution	Agricul-ture and Fishing	Mining and smelt-ing	Petro-leum	Public utilities ties	Miscel-laneous	Total
All areas :								
1945	2,671	672	518	1,063	1,538	1,357	551	8,370
1946	2,904	752	544	1,078	1,760	1,283	592	8,913
1947	3,205	836	578	1,111	2,364	1,275	648	10,017
1948	3,603	931	627	1,147	3,047	1,287	737	11,379
Canada :								
1945	1,145	141	13	451	160	383	234	2,527
1946	1,257	163	14	479	181	383	263	2,740
1947	1,362	167	14	498	229	350	253	2,873
1948	1,573	198	14	501	278	353	270	3,187
American Republics :								
1945	433	146	420	412	645	898	46	3,000
1946	487	166	445	397	769	822	59	3,145
1947	595	211	474	410	1,089	847	97	3,723
1948	676	267	503	433	1,376	852	104	4,211
E.R.P. countries :								
1945	832	265	4	64	299	20	205	1,689
1946	885	281	4	64	309	20	202	1,765
1947	949	295	4	64	337	20	216	1,885
1948	1,035	291	4	65	369	20	237	2,021
E.R.P. dependencies :								
1945	12	17	56	40	127	5	7	264
1946	12	19	55	40	151	5	7	289
1947	13	21	56	38	249	5	7	389
1948	17	22	56	42	391	5	7	540
Other Europe :								
1945	105	39	2	85	64	10	24	329
1946	107	40	2	85	64	10	25	333
1947	111	40	2	83	65	10	26	337
1948	113	42	2	82	68	11	25	343
All other countries :								
1945	144	64	23	11	243	41	35	561
1946	156	83	24	13	286	43	36	641
1947	175	102	28	18	395	43	49	810
1948	189	111	48	24	565	46	94	1,077

From Survey of Current Business, U.S. Department of Commerce, Washintogn, Nov., 1949.

E.R.P. *half-time score*

The European Recovery Programme was conceived as a four years' plan. After two years which have been "unreservedly succesful," O.E.E.C. looks forward with hope — and trepidation

THREAT of bankruptcy and economic dissolution, with the political threats which would follow, was imminent in 1947. It is still there in the background, and will remain there until the structure of world production and trade has found a new equilibrium. Any interruption of the European Recovery Programme, or the onset of world depression, would bring the threat once more to the fore.

But the fact remains that the work of these two years in Western Europe together with assistance from the United States, has removed the immediate threat and has laid the groundwork for its lasting suppression. On this reckoning—the reckoning of life or death for Western Europe—the first two years of the European Recovery Programme have been unreservedly successful.

The report shows that the production effort is succeeding beyond expectations. In the Interim Report a year ago, the O.E.E.C. felt bound to express doubt whether the countries' estimates at that time of the growth of production would be fulfilled. But the record speaks for itself. The total output of goods and services in 1949 was about 25 per cent. above that of 1947, and exceeded the pre-war level; the expansion is continuing, and a further increase of about 10 per cent. should be possible by 1952. Both in industry and in agriculture, recovery has gone much faster and farther than in the four years after the 1914-1918 war.

In agriculture, it must inevitably take time to restore production after war-time dislocation. But nevertheless, the grain harvests 1948 and 1949 were nearly up to pre-war, and a very rapid expansion has taken place in the production of animal products in the last 12 months.

In industry, the progress has been spectacular. Of all the O.E.E.C. countries, only Germany and Greece are producing less than pre-war: all the others are producing more, and many are producing really substantially more. Apart possibly from electric power, there are now generally no critical bottlenecks in European industry; there is no single commodity which is so scarce that the lack of it disrupts the whole industrial effort. This is the central achievement of the last two years' work.

Higher Production

Excluding Germany, output per man-year is now about 10 per cent. above pre-war. There have been very few strikes—one hour lost since the end of the war for every thousand worked. Above all, in few countries is there much unemployment; the only important exceptions are Italy, Germany and Belgium, the result in Italy and Germany of a long term problem of surplus population which Europe cannot solve by itself.

Considerable progress has been

From European Recovery Programme, second report of O.E.E.C., Paris, Feb., 1950.

made since 1947 in the improvement of national finances and the creation and maintenance of internal financial stability. The countries which were facing runaway inflation three years ago have got it under control; in other countries where overt inflation was suppressed by controls, the inflationary pressure has been relieved.

There is much still to be done. Nearly all the O.E.E.C. countries are still suffering to a greater or less extent from inflationary pressure, which inevitably tends to reduce their exports and increase their imports. The recovery of production and internal finance would have been impossible—and continues to be impossible—without the flow of dollars from E.C.A. But good use has been made, in every one of the O.E.E.C. countries, of the opportunity provided by American aid. Alongside this national action there has been effective collective action through O.E.E.C., particularly in intra-European trade and payments.

First of the Schemes

At the beginning of the O.E.E.C. discussions in 1947, the payments crisis in Europe—a reflection of the exhaustion of dollar resources—was threatening to bring trade within Europe to a standstill, and to destroy the industrial recovery made since 1945. Intra-European trade in 1947 was less than two-thirds of pre-war volume, and the lack of dollars and scarcity of key commodities was forcing countries increasingly to resort to bilateral bargaining, and even to barter.

The means adopted to break the log-jam was the first Intra-European Payments Scheme in 1948, which was followed by the second scheme in the summer of 1949, which sought to remedy defects in the first scheme and introduce a greater element of flexibility.

These schemes, which were temporary devices designed to enable the O.E.E.C. countries to obtain essential imports from each other, were instrumental in enabling the recovery of production and the overcoming of inflation in individual countries to be strengthened and fostered by a recovery of intra-European trade, which is now equivalent in value to nearly $9 billion a year and is little below the pre-war level. In the past two years trade between the participating countries has increased by 50 per cent.

Bridging the Gap

Progress has been made towards the reduction of the dollar deficit. In 1947 this was $8½ billion. In 1948 it was reduced to $5½ billion. In the year 1949-50 it is estimated at slightly below $4½ billion. But this steady improvement from year to year conceals situations of great difficulty which have developed. Throughout 1948 and to the spring of 1949, the reduction was rapid; in the summer of 1949 there was a serious deterioration which lost much of the ground which had been won in the previous 12 months; in the last few months, following the devaluations, there has been a recovery again.

The experience of 1949 has shown how vulnerable Western Europe's dollar earnings are to even a small shock coming from outside. On favourable assumptions about the future course of the world economy —and in particular on the assumption that United States business activity does not fall below the level of the middle quarters of 1949—the report shows that the O.E.E.C. coun-

tries will be able to continue their recovery if they receive aid in the years 1950-51 and 1951-52 at the rate of 75 per cent. and 50 per cent. of the 1949-50 level respectively.

It must be emphasized that failure of the assumption about United States business activity would destroy the basis of the calculations, for dollar earnings cannot expand in face of declining United States demand for raw materials and manufactured goods, and the developing intra-European equilibrium could not survive the struggle for dollars which would result from their renewed scarcity.

Essentials for Success

Moreover, if the assumption about the amount of aid available is not realized, the plans for continued recovery set out in the programmes cannot be fully implemented. There would have to be reductions in essential imports, with cumulative effect upon production. The estimates now made about the availability of supplies from other sources are optimistic and leave no margin for substitution of non-dollar for dollar imports.

The calculations on these assumptions show a reduction in the total dollar deficit from nearly $4½ billion in 1949-50 to $3¼ billion in 1950-51 and $2¼ billion in 1951-52. This leads to a situation in which imports from the United States and Canada are slightly over $3 billion in 1951-52, while E.R.P. Aid is assumed to be $2 billion.

It is clear from these facts that a serious problem will exist after 1952. The report shows that this problem can be made generally manageable, provided that the assumptions are fulfilled, and provided that appropriate policies are vigorously pressed, in the first instance by the O.E.E.C. countries and also by the United States and other non-participating countries. The importance of the assumptions and the far-reaching character of the required policies are increasingly clear.

There is no single effective solution of the dollar problem. It must be attacked from many sides. One essential element is a much better balance in the trade between Western Europe and North America. The higher the level of this trade the better, both for Western Europe and for North America. The O.E.E.C. countries are determined to make it as high as they can. But whether at a high level or at a low, the trade must be much better balanced than in the past.

One important consideration in working towards a new equilibrium is a proper conception of the relative magnitudes involved. Western Europe's exports to North America are small in relation to imports and this is not merely a result of the war, but a longstanding characteristic of the trade between the two areas. In 1938, for example, Western Europe's exports to North and Central America were only one-seventh of her total overseas exports, while her imports from that area were about one-third of total imports.

Dollar Imports

In 1947 the O.E.E.C. countries' exports to North America were 12 per cent. of their imports from North America; in 1948 the proportion went up to 22 per cent., in 1949-50 it is estimated at 25 per cent., and the countries are reckoning that it will increase to 35 per cent. in 1950-51 and nearly 50 per cent. in 1951-52. These changing proportions reflect, of course, both a decline in imports and an increase in exports.

Even in 1951-52, E.R.P. Aid would amount to more than half the

O.E.E.C. countries' imports from North America, and for an ultimate stable balance a much larger proportion of imports must be covered by the sale of exports. In any event, it is hardly possible to imagine circumstances in which the O.E.E.C. countries' dollar deficit was eliminated with exports to North America less than, say, 75 per cent. of imports from North America.

The adjustments of production and trade which are implied cannot be achieved without difficulty both in Western Europe and in North America. If the whole burden of adjustment were thrown upon the O.E.E.C. countries' imports from North America the latter would have to be cut to about one-third of their current level—this would be disastrous for Western Europe and would have damaging repercussions in North America. If the whole burden were thrown upon the O.E.E.C. countries' exports to North America, the latter would have to be trebled and this is certainly out of the question by 1953.

American Business

The estimate in this report assumes a level of business activity in the United States equivalent to that of the second and third quarters of 1949. If this assumption is not fulfilled or bettered, the prospects of balance at a high level of trade must be regarded as faint. Even a small adjustment in United States business activity can have altogether disproportionate effects upon the O.E.E.C. countries, whose financial and physical reserves are not large enough to take the strain of a sudden loss of earnings; the losses of war and the crises of the post-war period have sorely weakened the O.E.E.C. countries' external capital position, and this renders them much more vulnerable to sudden change. It is hoped that it will be possible to correct this to some extent during the next two years; without such a strengthening, an effective worldwide multilateral trading and financial system will still be far away.

In the last of the four years of E.R.P., the O.E.E.C. countries will still be heavily dependent upon United States aid for their essential imports from North America. After the middle of 1952, Western Europe will in any case have to balance its dollar accounts. The question which arises is whether this balance will be possible at a high enough level of imports from North America to maintain a healthy economic structure in Western Europe, and to permit trade policies compatible with a growth of world prosperity.

Problem Can be Solved

For Western Europe and for North America alike, success in maintaining this high level of trade is an imperative need. But success will be possible only if the policies of the countries of Western Europe and of North America are directed towards this objective, on the lines indicated in this report.

The O.E.E.C. countries cannot do this alone, either by their own national efforts, or by collective action. The closer integration of their economies will be a source of strength in the long run, but it does not itself contribute decisively to the immediate dollar problem. The balancing of trade between Western Europe and North America and of both with the rest of the world is a joint problem, which can be solved only by joint action.

The nature of this action is indicated in this report. The conclusion is that if this action is taken, the problem can become manageable

by 1952. The elimination of a dollar deficit of $2 billion in 1951-52 will not be easy. However, in 1952-53 some of Western Europe's imports will be financed by 1951-52 E.R.P. funds; the break will not be as sudden as would appear.

If speedy measures are taken there will be a strong momentum of dollar earnings. In three years' time, the flow of international investment should have been stimulated. The level of production in countries outside Western Europe should have expanded. The view of the organization is that it should be possible, given the assumptions and given the policies, to maintain a flow of imports from North America adequate to the needs of the Western European economy.

This does not mean that every one of the O.E.E.C. countries will be in balance; the problems of recovery of some are greater than can be solved in this period. But it does mean that there should be no general Western European crisis; the deficits will be localized rather than general. Indeed, apart from certain countries whose recovery will not be complete, the Western European dollar problem should by then—given the assumptions and the policies—have become part of the problem of general world imbalance, requiring a broader attack, in which it is hoped that the O.E.E.C. countries will be able to participate.

The balance of Western Europe will be precarious, and stable equilibrium will not be reached by 1952. To achieve and maintain this equilibrium within a world-wide multilateral trading and financial system and contribute to further economic progress in Western Europe will remain the continuing task of the organization.

International Defence Costs

Excessive Burden on Britain

By J. L. GIBSON

THE financial and economic implications of common defence were examined by the Foreign Affairs Committee of the House of Representatives in their report No. 1265.

The committee's study is outstanding for two urgent reasons. First, it "deliberately put aside" the lend-lease concept as a means of mutual assistance. Secondly, it makes it clear that what is sought in the joint defence budgets is "equality of burden" in relation to the national incomes of the participating countries. Recognizing that "citizens," not "States," finance the common defence, the committee gives tables showing the average *per capita* incomes of the national citizens concerned.

Ignoring this latter (and paramount) issue, we find from the tables of national incomes alone that Britain's contribution to the common defence pool is running at some £150 million a year ahead of quota.

Although the committee does not attempt the difficult assessment of financial burden based on *per capita* income, it may be doubted whether in any such assessment the

From The Times, London, Feb. 23, 1950.

total contribution by British citizens to the joint Anglo-American defence budget would reach one-tenth of the total, or well below £600 million a year.

In other words, assuming a continuing (non-cut) gross defence expenditure by this country of some £800 million a year, a decision to institute a common financial pool on the lines of the committee's approach would entail an annual balancing amount in Britain's favour little below our current receipts under the Marshall Plan.

Maintaining Full Employment

United Nations have issued a highly debatable report on maintaining full employment. Domestic measures were given in the March issue of The Economic Digest. This outline of international methods concludes our summary of the report

THE international measures are summarized as follows in par. 183 of the report.

"The particular recommendations set out below serve three main purposes:

"(*i*) To create a workable system of international trade for a stable and expanding world economy and thereby provide the conditions required for the elimination of undue trade barriers and for the restoration of the convertibility of currencies.

"(*ii*) To accelerate the orderly economic development of the under-developed areas of the world.

"(*iii*) To prevent the international propagation of fluctuations in effective demand.

"For these purposes we recommend that governments should take early action on the following lines:

"(*i*) To establish a programme, through consultation among governments under the auspices of the Economic and Social Council, to eliminate the present structural disequilibrium in world trade.

"(*ii*) To create a stable flow of international investment at a level appropriate to the needs of the under-developed areas of the world and to the capacity of the lending countries.

"(*iii*) To stabilize international trade by maintaining external disbursements on current account in the face of internal fluctuations of effective demand."

These recommendations are amplified in pars. 186-205 of the report. The following are some of the main points:

A. Equilibrium in World Trade

The Economic and Social Council should convene a meeting of the governments of interested countries in order to develop a joint programme designed to establish, at a reasonably early date, a new structural equilibrium in world trading relationships; and to consult together on adjustments in domestic and external policies that are required to this end. This programme should

From National and International Measures for Full Employment, United Nations, Lake Success, January 15, 1950

aim at removing the existing lack of balance and at establishing structural equilibrium in world trade within the space of three or four years.

Such a programme would involve extensive consultation and exchange of information among governments, leading to the formulation of national policies and possible international agreements. It would call for a procedure whereby countries would make known to one another the character of the economic policies they intend to pursue, and would consult together concerning the means of harmonizing such policies. This would require, as a first step, that both deficit and surplus countries should set "targets" for the main constituent items of their balances-of-payments indicating the adjustments by means of which they hope to restore overall financial equilibrium within an agreed period.

In order to assist governments in the realization of this programme the Economic and Social Council should establish an Export Advisory Commission, responsible to the Council, and acting in close co-operation with the specialized agencies concerned, to work out, for the consideration of interested governments, detailed procedures for the formulation of the programme including the setting of targets and the choice of technical means for the co-ordination of national policies.

B. International Investment

Both from the point of view of the efficient development of the world's under-utilized resources and the achievement of a stable international trading system, it is essential that in the field of foreign investment the industrially advanced countries should undertake a far more conscious direction of policy than has yet been attempted.

Lending countries should fix annual targets for long term international investment for five-year periods, and they should make the necessary legislative and institutional arrangements to enable them to stabilize the total flow of lending at the planned level. The total to be thus fixed should comprise both private investment and public lending, and should take into account the rate of amortization and repayment on past debts. It is envisaged that the greater part of the loans would be channelled through the International Bank and that the governments of the lending countries would undertake to place funds at the disposal of the International Bank directly, on a current basis.

The International Bank, if restricted to its present function, would be unable to act as the main channel of international lending and to bring about a stable flow of international investment of major dimensions for two reasons: The first is that its resources are far too small to meet the needs of a long term investment programme. The second reason is that the Bank is now restricted to lending on a specific project basis, except in special circumstances. While such loans make important contributions to economic development, it is extremely unlikely, as the Bank itself recognizes, that they will result in a total flow of the magnitude required.

The experts therefore recommend that the Articles of Agreement of the International Bank should be amended so that, without prejudice to the discharge of its existing functions and obligations, it be enabled on the one hand to borrow from governments and, on the other, to lend to governments for general development purposes not only in special circumstances but generally.

In pars. 195-197 the experts outline a plan for adding to the functions of the International Bank.

C. Stability in Trade

The third main recommendation for international measures related to the achievement and maintenance of full employment concerns the adoption of procedures whereby the international propagation of deflationary pressure and the consequent tendency towards a cumulative contraction of world trade may be effectively prevented. If domestic policies of stabilization were fully successful in eliminating all fluctuations in income and employment in every country, the maintenance of international demand would be assured without specific measures.

There is every likelihood, however, that even after all practicable domestic action has been taken, a country's external balance of payments on current account might still be subject to considerable fluctuations as a result of internal causes. Such fluctuations might have serious disturbing effects on the stability of the world economy and on the ability of certain countries to maintain their national economies in a stable and prosperous condition.

While no international device can serve as a real substitute for the successful execution of domestic full employment policies, there is a legitimate need for countries to be protected against the possible failure of other countries to carry out their full employment obligation effectively. Indeed, it is in the interest of those countries, whose full employment policies may temporarily fail, to protect the world economy against the consequences of their failure.

It is necessary that each country should stabilize its own external currency disbursements on current account in the event of a decline in its own demand for foreign goods and services. This could be achieved in one or both of two ways. One way consists of the adoption of special measures to maintain imports. Such measures could take the form of government purchases of imported goods for stock-piling purposes as part of more general national schemes adopted by particular countries for stabilizing the prices of staple commodities in terms of their own currencies. Countries should take all practicable steps in this direction, but such action can make only a limited contribution to the solution of the problem since, in any event, such action could only be applied to a restricted number of commodities.

Each government should therefore accept the responsibility, within a permanent and systematic international scheme, of replenishing the

THE RECOMMENDATIONS

1. *Establish a programme, through consultation under the auspices of the Economic and Social Council, to eliminate the present structural disequilibrium in world trade.*
2. *Create a stable flow of international investment to be channelled largely through the International Bank for Reconstruction and Development, to the under-developed areas.*
3. *Adopt a scheme, to be operated through the International Monetary Fund whereby the international propagation of deflationary pressures may be effectively prevented.*

monetary reserves of other countries concurrently with, and to the extent of, the depletion of those reserves which results from an increase in its own reserves induced by a fall in its demand for imported goods and services, in so far as this fall is caused by a general decline in effective demand within its own country. The adoption of such a scheme would be the most important single contribution that could be made in the international sphere towards protecting the world economy against the spread of recurring deflationary influences.

The experts set forth in pars. 204-205 a specific and detailed scheme to be operated through the International Monetary Fund to achieve these purposes.

The statement by Professor J. M. Clark, with which all members of the committee express general agreement in the note of transmittal to the Secretary-General, draws attention to one important area where it is not possible to make a finding at once positive and simple, and where further study is required. This is the area of problems which includes the effect of the wage-price structure and behaviour on aggregate effective demand and employment, and proceeds to raise the same question with respect to numerous other matters of the sort roughly indicated by the term "structural."

Professor Clark considers that neither increased nor decreased wages, with or without corresponding price adjustments, can be relied on *a priori* as dependable remedies for under-employment. He also draws attention to other respects, in which structural factors have a bearing on full employment policies, and considers that these require further study. His statement concludes as follows:

"We are probably taking some chances if we try to do too much with fiscal policy. But we are also taking chances if we do too little to stabilize income and employment at a high level. In terms of fluctuations, the United States might be inclined to accept a moderate amount of irregularity, and rely on its social security system to provide for the resulting unemployment. But the impact of our fluctuations on other countries will not allow us, as good citizens of an interdependent world, to decide the question in the same terms that might govern us if we were isolated.

Not Too Little . . .

"I recognize that the world situation, analysed in this report, imposes an obligation on countries that rank as industrial leaders, and makes it to their interest, to demand a higher performance from themselves than they might be inclined to do on domestic considerations alone. To put it in what may be a more pertinent light, this world situation warns us to take very seriously—more so than we otherwise might—the risks of doing too little, as against the risks of using imperfectly-tested fiscal devices.

"In view of the world situation, I am prepared to take considerable risks of the latter sort, and it is in that light that I am signing this report."

STERLING BALANCES—RELEASES IN 1949

Under a rangements made by H.M. Government with Brazil, Ceylon, Egypt, India, Iraq, Israel, Pakistan, Sweden, and Uruguay, sterling releases during the year 1949 amounted to £218 million.

Rt. Hon. Hugh Gaitskell, Minister of State for Economic Affairs, House of Commons, March 9, 1950.

Economics of the Council House

Rents are rising, but costs are going up still faster

LOCAL authorities are responsible for something like one in ten of the pre-war stock of houses in England and Wales and for three-quarters of those built since the war. This broadsheet collects together some information about what is happening to municipal housing; what rents are being charged, what new houses are costing, and how far these authorities are managing to pay their way. Information of this kind is essential for any discussion of housing policy. Can tenants afford current rents? Can building costs be brought down? Must the State subsidy be increased or completely reorganized? Should standards be lowered?

The broadsheet does not attempt definitive answers to any of these questions, but it tries to provide some of the facts needed to arrive at the answers.

Rents in 1949

"Most increases in weekly *net* rents were 2s. 6d. or less, 24 per cent. were between 2s. 6d. and 5s, and 15 per cent. were over 5s. But these averages mask very wide ranges in the increases made by one authority and do not indicate the full amount which some tenants have had to meet. As rates have gone up in 95 per cent. of the authorities, *gross* rents show greater increases. Only one authority has made no increase. One third have increased by 2s. 6d. or less a week, nearly half between 2s. 6d. and 5s., and the remainder over 5s. The northern regional group have kept their increases to a lower level than the South, only 3 per cent. rising by more than 5s. and 55 per cent. by 2s. 6d. or less, as against 41 per cent. and 10 per cent. in the South-East.

"The average gross rent for pre-war houses was 15s. per week, compared with about 11s. in 1939. One-third of the authorities show rents of 12s. 6d. or less; about one-seventh rents over 17s. 6d. Eighty per cent. of these high rents are in the southern regional groups."

"Loan charges are the biggest element in the rent. Their annual amount depends on the size of the sum to be paid off (*i.e.,* the capital cost of the dwelling), the rate of interest, and the number of years over which the loan is paid back.

"The averages of erection costs show very wide variations between regions. The Ministry of Health northern region averaged £1,258 as against the home counties average of £1,462, and the range of costs spread from £1,136 to £1,1630. There seems to be little to choose in costs of erection between the large and small towns, both the largest and the smallest having a majority costing less than £1,250. The medium size towns seemed, if anything, to have slightly higher costs."

The second major constituent in rent calculations is the contribution to the repair fund. These have more than doubled since 1939. The average 1948-49 contribution was

From Economics of the Council House, P.E.P. London, Jan. 23, 1950.

THE CHARTERED BANK OF INDIA, AUSTRALIA AND CHINA

MR. V. A. GRANTHAM'S REVIEW

The 96th ordinary general meeting of the Chartered Bank of India, Australia and China will be held on April 4 at 38, Bishopsgate, E.C.

The following is an extract from the statement of the chairman, Mr. V. A. Grantham :—

Compared with last year's figures, Current and Other Accounts, Fixed Deposits and Acceptances, are greater by £8,105,084, £963,294 and £7,058,158 respectively, whilst on the Assets side, Cash in Hand and at Bankers at £25,994,576 shows the substantial increase of £6,528,940 the ratio to our call liabilities being 22.13 per cent. Government and Other Securities, apart from those lodged against our Note Issue, have been reduced by £3,881,002, and this reduction is reflected in the increased cash position and in increased advances to customers and other accounts which have gone up by some £2,263,391 once again indicating the substantial extent to which we are assisting our customers and taking our full share in financing world trade with Eastern countries.

The net profits for the year at £515,592 are higher by £48,481 than last year in spite of continually increasing working costs in all parts of the world. In almost every Eastern country in which this bank operates however, working conditions have deteriorated during the year and it would be natural now to expect diminished net returns, especially from centres where business is already having to be restricted. It may not be sufficiently realised how greatly taxation in all centres reduces the net remuneration the bank earns for the vast services it renders in all the many countries where it is established. Even where conventions exist which provide relief from double income-tax, the application of business Profit Taxes abroad, as well as at home, effectively reduces net profits to modest proportions, whilst, where no such conventions are in force double taxation operates to cut down net profits to fractional dimensions.

An interim dividend was paid in October last of 6 per cent. less income tax, absorbing £99,000, and it is now proposed to pay a final dividend of 6 per cent. less income tax costing £99,000 net. Again this year, your directors recommend allocation to the pension fund and widows' and orphans' fund of £100,000 and £15,000 respectively.

FAR EASTERN CONDITIONS

While in Malaya the struggle against the insurgents may be said to be proceeding fairly satisfactorily if slowly, the Communist victory in China has intensified the existing dangers of upheaval in all the adjacent countries. The urgency of the danger inherent in the present situation is perhaps most clearly exemplified by the continued need for food throughout Asia, and the threat which overhangs Indo-China, Siam and Burma, Asia's ricebowl ; but in almost all Far Eastern countries inflation is rife to an extent which, with its underlying causes, places in peril the very existence of their peoples.

While British trade, in the opening stages after devaluation of sterling, has shown considerable resilience—a resilience which has also been passed on in some measure to the countries in the Far East with currencies aligned to sterling—and the prosperity of the United States has stood up well to the shock of the appreciation of the dollar against almost all the currencies of the world, problems of real difficulty are calling for solution in both countries and it must be very clear that any marked recession in the prosperity of the United States or in the trading position of Great Britain could not fail to have serious repercussions, especially in the Far East.

£6 10s. per house.

"Although the sum of £6 10s. may seem extremely small compared with a capital expenditure of £1,500, its influence on rents is out of proportion to its size. An extra £100 on capital cost increases the weekly rent by only 1s. 5d. (at 3 per cent. interest). The same increase will be achieved by a £3 12s. repair contribution, as it is a direct charge on the rent. An increase from £4 9s. to £6 10s. therefore means an increase of 9d. a week on the rent. If the contribution has to rise to £9, this will mean a total rent increase of about 1s. 9d. a week.

"The final component of housing expenditure, with direct effect on the rent required, is made up of management and administrative costs. Increases in administrative costs and salaries, and the growing realization of the importance of housing management, have both increased the cost of this item. Before the war, management costs of nearly 80 per cent. of the authorities were under 30s. per house per year, and the average was 24s. 6d. By 1949 this average had rather more than doubled, at 52s. 6d. Regional differences were again apparent, the northern authorities mostly spending under 50s. and the southern authorities over 50s."

Can Rents be Reduced ?

Rents may be reduced by cutting costs or by increasing subsidies. "Savings on quality of building (as distinct from reductions in size or equipment) can rarely be justified. Even economies on equipment such as downstairs lavatories or adequate cupboard space may be a false economy and cause far greater expense later on. Dwellings built really well have a life far longer than their extra cost might suggest. Reduction of other costs, whether of management or maintenance, seems unlikely to produce great savings, except where there is evidence of careless administration.

"Can more be done to even out inequalities in rent between pre- and post-war houses by the local authorities themselves? Can they do more to ensure that the poorest families are housed, as well as those able to pay the high rents needed in so many post-war houses? Two lines of policy have been pursued, but neither very vigorously by most authorities. About one-third had either fully or partially consolidated their pre-war and post-war house rents. This means that all subsidies are pooled, and the rents for the houses fixed according to their quality, and not according to the accident of being built at a time of high or low costs. Post-war houses, while higher in rent than pre-war houses, are thus only higher in so far as their improved size and amenities warrant.

"Such a move is bound to be unpopular, as it means disturbing the rents of many tenants of pre-war houses, whose subsidy is wholly or partially transferred to enable lower rents to be charged for post-war houses. As most pre-war houses have rents which even with 2s. 6d. a week increase are well within the means of their tenants, it may seem fair enough that the subsidy, intended to help them when they could not afford the full rent, should now be transferred to help those in the same position to-day.

"The second method, usually introduced as a corollary of the first, is one of differential rents or rent rebates. Only 15 authorities of the 162 in the survey (9 per cent.) have introduced rebate schemes. The intention of these is to use the subsidy to help those who cannot afford the full rent, rather than those who can. To

NATIONAL BANK OF INDIA

INCREASED NET PROFIT

The annual general meeting of the National Bank of India, Ltd., will be held in London on March 28.

The following is an extract from the statement of the chairman, Mr. **J. K. Michie,** circulated with the report and accounts for the year to Dec. 31, 1949 :—

The balance-sheet total at £92,972,507 shows an increase on the previous figure of just over £10 million. Current accounts and deposits have risen by about £9 million ; on the other side advances have gone up by £7 million and cash by over £5 million, while investments have fallen by just under £4 million. Investments had to be realised when advances reached a high level in 1949. This expansion is due in part to Pakistan balances being valued at the new rate of exchange of 2s. 2d. to the rupee.

After making full provision for taxation, bad debts and other necessary reservations, net profits are £593,750 against £523,950 for 1948. This larger figure is partly accounted for by dividends received from Grindlays Bank Limited, but is also a reflection of an increased business.

The increase in our capital requires a larger sum to cover dividends while considerable expenditure incurred and in prospect has made it advisable to allot £50,000 to premises account against £30,000 last year. We are again able to place £100,000 to reserve fund, and this, coupled with the sum of £121,250 transferred from inner reserves previously made and no longer required, brings our published reserve funds to the satisfactory total of £3,500,000 apart from the carry-forward which is slightly increased at £279,906.

COMMERCIAL ADVANCES

Last year I mentioned the large volume of our commerical advances and some of the causes. These factors persisted throughout 1949 ; production costs, though tending to stabilise, remain high and capital markets where they exist need very considerable inducement, showing that Central Bank rates are no longer the dominating criterion of money values. On the other hand, the devaluation by the sterling area (excepting Pakistan) in Sept. last, which was in fact a recognition of an inflationary situation, has brought relief to primary producers in India, Ceylon and East Africa.

Unfortunately, the different policies followed by India and Pakistan in regard to their exchanges have had consequences inimical to the economies of both countries, and as I write five months after the announcement of devaluation no rate of exchange between the Indian and Pakistan rupees has been agreed by these countries, whose principal trade has always been and should be with each other. Apart from transactions covered at unofficial rates of exchange there is, therefore, no trade passing between the two countries. One result is that the Government of Pakistan is being forced to finance its jute crop pending export, while Calcutta mills wonder where their raw material will come from.

I have little doubt that the statesmen in both countries are tackling the problem of reaching a working understanding, for they know far better than any onlooker can the failure to reach one will entail consequences that cannot be confined to economics alone.

Banking, perhaps overseas banking particularly, continues to be presented with problems the responsibility for which lies in other hands. Assuming that "The State" is not to be the sole purveyor of capital in the future, a reduction in direct taxation would be a tremendous encouragement. Failing such action I can foresee a considerable further period of stalemate and economic stagnation. It is most encouraging to see India giving a lead in this enlightened policy.

achieve this rents must be based on family income, and therein probably lies the major reason for the rarity of such schemes. Dislike of 'means tests' and administrative complexity appear to have deterred most authorities from introducing them.

"Apart from these various adjustments, subsidies can be increased either by lowering the interest rate at which local authorities borrow or by raising the lump sum grant from £22 per year. But they have already reached a total of £25 million per year and will grow as house building continues. Before there are further increases, the Government should satisfy themselves that the most effective use is being made of the money. Apart from such attempts as are made to work rent rebate schemes, the present method does not discriminate between the people whose rents are thus assisted. Should those who live in municipal houses be helped in preference to, and to some extent at the expense of, those who live in privately owned houses? Could assistance be more accurately directed towards those who cannot afford full rents? Is it wise to maintain rents at an artificially low level which does not reflect the cost of production?"

Local Rates More Uniform

The County Accountants' Society has issued an interesting statistical table giving comparative figures of rates for the year ending Mar. 31, 1950, in England and Wales. The figures relate to counties and include boroughs, urban districts and rural districts.

The average rate for the year for England and Wales taken together, increased from 17s. 7d. to 18s. The population per acre of Welsh counties is only half that of English counties, and the rateable value per head of population £4 5s. 4d., against £6 14s. The estimated product of a penny rate ranged from £88.960 in Middlesex and £57.564 in Surrey to £565 in Merioneth and £676 in Cardigan. Consequently more than half the rates in Wales exceeded £20, while rates of £20 or over were the exception in England.

In comparison with 1948-49 the general tendency in 1949-50 was towards the equalization of rates. In Rutland, for example, the estimated average rate rose from 14s. 8d. to 19s. 2d. and in Wilts from 15s. 3d. to 17s. 9d., while in Carmarthen it fell from 24s. to 19s. 11d. and in Pembroke from 24s. 4d. to 22s. The highest rate of 1949-50 was 22s. 10d. in Brecon, and the lowest 15s. 4d. in East Sussex.

A brochure issued by the Nottinghamshire County Council for its administrative area gives the same kind of statistics about rates but in greater detail, besides a good deal of other information showing how the rates are collected and spent. 1949-50 is the first year in which it is possible to assess the new financial relationship between the central government and local authorities.

Rates levied in 1949-50 were lower than in 1947-48 in boroughs, urban districts and rural districts, except in the case of one urban district. In comparison with 1948-49 most rates were unchanged or higher, especially in urban districts, and lower only in two cases. The product of a penny rate varied from £1,220 to £177. The highest rate in £ levied as general rate was 18s. 8d., and the lowest 13s. 4d.

From Report of the the County Accountants' Society, March, 1950.

DIGEST Book Review

Industrial Facts and Fallacies

By LEWIS C. ORD

LEWIS C. ORD, the well-known business consultant and industrial expert, has followed up his two earlier books with a third. The main differences between it and "Politics and Poverty" (reviewed by the *Economic Digest* in October, 1948) are in emphasis rather than substance, especially in his criticisms of the policies of governments.

The book is based on a series of talks to industrial audiences given between July, 1948, and June, 1949. The most popular points in these talks are summarized in the first four chapters. In discussions with his audiences the author found a wide cleavage of opinion between the advocates of still bigger businesses and still more planning and coordination from the top, and the far more numerous opponents who believed in the efficiency of small and medium size businesses.

Chapters V to X discuss the respective advantages and disadvantages of the three types of business. Mr. Ord comes down heavily on the side of the medium and small business.

Chapter XI is an analysis of the reasons why American industry leads. In Mr. Ord's opinion:—"The relatively slower British working pace is due to a different attitude of mind. That attitude is not due to anything within the man himself. It is something derived entirely from the country in which he lives and works. This is easily demonstrated. The British worker takes his ideas on trade unionism, social, political and industrial policies with him to the United States along with his relatively slow working pace. As his ideas change, so does his working pace. Within a year or two, except for his accent, he is usually indistinguishable from the others among whom he works. If those same ideas could be imported into Great Britain, working pace here could be made as good as in the U.S.A.

Ideas Cost Nothing

"Americans do not have a working population inherently better or more capable than those of the countries of Europe from which most of them came originally. What Americans have demonstrated to the world at large is that when you give a population better ideas, they work better and become more prosperous. The British, as a nation, will buy and use an American machine better than their own. They show a strange reluctance on occasion to adopt American ideas that cost them nothing and that are capable of benefiting them enormously. Who will estimate what American working pace in this country could achieve?

"British workers get their ideas on how industry and the nation ought to be run from trade union leaders, politicians and industrialists among

Industrial Facts and Fallacies, Mayflower Publishing Co., London, 1950, 10/6d.

others. The point of view of those who lead and teach must change before a change of ideas and point of view can occur in the minds of those who follow. Of such a change there is no sign to-day. The tendency on all sides seems to indicate an intensification of the old ideas. No basic change in the British worker's outlook on life and work such as would make him feel happier and work better can occur until after a basic change has taken place in the present views of his leaders.

Don't Blame the Workers

"It is very unfair for the British general public to blame their workers for the slow pace. There are no better and no more skilled workers in any other country in the world, including specifically the United States. All that is wrong is that they have been taught wrong ideas, and in many important particulars they have been badly led. Put these things right, and British workers will be found to be as willing and capable as any others. Put the blame where it belongs and start the cure where a cure must be started if things are ever to be put right.

"Everyone knows that a large part of the American industrial lead is due to better industrial tools and equipment and much more power used to drive them. These facts have been well publicised. Like better working pace, better tools and equipment is not an advantage granted Americans by generous nature. They built them for themselves at considerable cost and effort. They are now reaping the benefits of their own enterprise.

"Nothing prevented the British from being equally well equipped had they so desired. Between the two great wars it was well known that British industry was badly behind in this particular. There was no lack of skilled man-power; these were the years of mass unemployment. There was no lack of money; these were the years when vast sums of money lay in the banks awaiting the opportunity of profitable employment. The industrial system as it then operated in Great Britain did not keep the tools and equipment of British industry up to the standard necessary to produce real wealth at American levels. That is a statement of fact so well known that it does not require proof.

"Confirmation of this fact comes from another direction. Prior to 1880, British industry was on average more efficient and better equipped with tools and equipment than American. Then two things happened. Price rings, trade associations and cartels began to come into existence in Great Britain between 1875 and 1880. The United States moved

in the opposite direction. The Sherman Anti-Trust Act was passed in 1890. British industry set out to kill effective competition and to raise and maintain prices by agreement. The American Government made sharp and unrestricted competition the foundation of its industrial policy and outlawed all attempts at monopoly whether by association or otherwise and all attempts to raise and maintain prices by agreement."

The last chapter is a recapitulation and summary of conclusions. Four fallacies are listed which, according to Mr. Ord, are held by Socialists and many of their political opponents.

"1. *That a big business can be made more efficient than a small one.*

2. *That centralized scientific functional management is the best technique and one that should be applied universally.*

3. *That monopoly with planned production produces greater efficiency than is possible under effective competition.*

4. *That university trained men can manage businesses more efficiently than the well trained practical type of craftsmen managers.*"

He is critical of the British Institute of Management because of its support of the fourth of these fallacies. His alternative is "to restore craftsmanship to its old status in the eyes of the community—to see that it is recognized as the foundation of the wealth of the nation. They would stop the drift into offices and the creation of innumerable petty bosses in Government and in industry. They would see that the proportion of the population doing active productive work was increased and that the proportion of non-producers decreased. This would do more than any other single step that could be taken to increase the volume of production and to lower prices.

"To popularize craftsmanship and to increase its numbers, they would take steps to ensure that apprenticeship was improved so that it would draw the best of the boys—not the nation's discards. They would ensure that the technical training given to these boys during and after apprenticeship was really first class. They would ensure that craftsmen were made to believe that, for the work they did, they were quite as well educated as the boy from the university, and socially his equal. The country has not nearly enough craftsmen to-day. It must have many more. There are relatively less important jobs that the nation must learn to do without if it is to win prosperity at higher levels.

Management by Craftsmen

"There is another important point that wise Trade Union leaders would not overlook. They would insist that the proportion of craftsmen promoted to management should steadily increase in the hope that it would ultimately reach a level at least as it used to be when Britain was the world's industrial leader. The country might well regain her former industrial position under managers as sound and well trained as they used to be."

He is also, a strong advocate of anti-trust and anti-monopoly legislation.

"Sharp and unrestricted competition in industry should once more become the foundation of British industrial policy. A number of the larger businesses should be split into smaller ones, by Government action if necessary. If all superfluous top management and staff were cut out at the same time, the shareholders and the general public would both benefit.

"Mergers should be made illegal except only in those cases where it can be proven that they are in the national interest. If it were shown clearly that major production economies were possible, and that they would not be wiped out by rising overheads and management costs, provisional permission to merge should be given. Only when it was shown that the estimated economies had actually been achieved should the permission be confirmed; otherwise the companies should be compelled to revert to their earlier position.

"Among these many factors, one point stands clear. Britain's industrial decline was caused in large measure by the few at the top who grasped power, and then more power. Companies grew too big. Trade associations and federations were formed which had the effect of giving more power into the hands of the big men and the big firms. This concentration of economic power in the hands of the few, greater to-day than ever before, is not in the national interest."

Shorter Book Notices

THE SCIENCE OF WEALTH

J. A. Hobson, revised by R. F. Harrod (Home University Library, Oxford University Press, 5/-)

Whether this is a classic or a historical curiosity has yet to be decided. That it contributed much to economic thought is certain, and it is given at least another lease of life by Mr. Harrod's epilogue on " The Unproductive Surplus."

COMMONWEALTH

Henry Drummond-Wolff (Hutchinson, London, 3/6)

A modern version of the concept of the British Commonwealth associated with the name of Joseph Chamberlain. But the context of the problem is now quite different, for the idea of an empire closely-knit through imperial preference duties and all that that implies has to be maintained against Bretton Woods, the American Loan Agreement, I.T.O., and all that those things imply. That is the task undertaken by the author, supported by a preface by Mr. L. S. Amery.

THE MEASUREMENT OF PROFIT

F. Sewell Bray (Oxford University Press, 10/6)

This profound work by the Senior Nuffield Research Fellow in the Department of Applied Economics, Cambridge is the outcome of a study begun by the Society of Incorporated Accountants. The introduction is by Mr. J. R. N. Stone. Since one of the great needs of the day is for deep thought on many of the matters which are treated as the small change of political controversy, this example is more than welcome.

OUR THREATENED INDUSTRIES

Evelyn Hulbert-Powell (Hollis and Carter, London, 4/6)

The frank purpose of the author is to provide ammunition for the opponents of nationalisation. For others it presents in convenient form significant facts concerning the industries of iron and steel, sugar refining, cement, industrial assurance, wholesale meat, water supply, and wholesale fruit and vegetables.

BRITISH BROADCASTING : A STUDY IN MONOPOLY

R. H. Coase (London School of Economics and Longmans Green & Co., London, 12/6)

A timely and comprehensive study. Partly for technical reasons, the idea of a monopoly for wireless broadcasting was accepted in Britain almost without argu-

ment. The B.B.C. was indeed conceived by some as a new and interesting form of public service, whose constitution might be a model in other fields. What has in fact emerged is, and will continue to be, highly debatable, and it is valuable to have all the relevant facts, and all the alternative ways of running broacasting, set forth in a single volume. The author is a Reader in Economics specialising in Public Utilities.

STATISTICAL YEARBOOK, 1948

United Nations, Lake Success, Jan., 1950. (*Available from H.M. Stationery Office*, 40*s*.)

There has been no comprehensive collection of international statistics since 1945, when the last issue of the Yearbook of the League of Nations appeared. This new U.N. publication fills the gap and is an indispensable tool for all economists and, indeed, students of world affairs. The coverage of the new volume is wider than that of the old Yearbook. It contains 158 tables with data from 239 countries. For 104 products annual output figures are given from 1928 to 1948. The section on international trade gives total imports and exports in value and volume for 130 individual countries—also for two decades. A special section is devoted to financial statistics (money supply, gold reserves, budgets), and in addition there are special tables dealing with national income and balance-of-payments statistics. Like the old Yearbook, the new volume gives a summary of population statistics. The manpower section shows not only employment and unemployment, but also the latest figures concerning the distribution of the population of the individual countries according to their industrial status and by occupational groups. An entirely novel departure is the inclusion of statistics relating to social, educational and cultural activities. These sections include social security, housing, schools and newspaper circulation. The Statistical Office of the United Nations deserves great credit for the production of this volume. One finds hardly any gaps in looking for information, though perhaps tables on the tractor fleets of the individual countries would round off the picture given of world agriculture ; and in the tables relating to shipping, the tanker tonnage might be shown separately. The list of conversion factors given in an appendix is particularly useful. The data given might be supplemented in future issues by conversion factors for the oil content of the more important oilseeds and for the metal content of ores. These, however, are minor desiderata.

THE EFFECTS OF TAXATION ON FOREIGN TRADE AND INVESTMENT

United Nations, Lake Success, Feb., 1950

These three studies show how serious attention is now being given by the U.N. Economic and Social Council to the problems of economic development and international investments. All three publications contain much detailed material which previously was not at all or only with great difficulties accessible. The second and third studies are mimeographed : one deals with policies affecting private foreign investment ; the other surveys methods of ensuring most advantageous use of savings for the purpose of economic development.

ECONOMIC SURVEY OF LATIN AMERICA, 1948

United Nations, Lake Success., Jan., 1950

This first comprehensive survey of conditions in Latin America, extensive extracts of which have already been given in *Economic Digest* (Vol II. p. 594), is now available in print. Like the other regional reports of the United Nations, it deserves a place on the bookshelf of all students of economic affairs.

THE MEASUREMENT OF INDUSTRIAL EFFICIENCY

J. A. Scott (*Pitman, London*, 15/-)

The purpose of this book, as the author explains in his preface, is to serve as a chart for those who wish to review the activities of their business, or other people's businesses, and to act as a guide to students of industrial administration from a fresh point of view. Part I is a general survey in which are discussed various methods of measuring efficiency—the imvestor's (or Stock Exchange), the auditor's, the works accountant's, the time study engineer's, and finally the basis of measurement. Part II, " Functional Survey," is concerned with the division of functions and the different departments of a business. In Part III ," The Assessment of Efficiency," the author puts in a plea for uniform trade statistics and accounting, especially in relation to costing practice, without which comparison is difficult

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